July 1956

THE CANADIAN CHARTERED ACCOUNTANT

THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS

Oscars - Consolation for the Losers

S.E.C. in Relation to Canadian Accountancy

Advertising Agency Operation and Control

Events Subsequent to Balance Sheet Date

Depreciation and Income Taxes

ACCOUNTING RESEARCH • THE TAX REVIEW • CURRENT READING

PRACTITIONERS FORUM • STUDENTS DEPARTMENT

THE CANADIAN

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IN THIS ISSUE

G. KENNETH CARR, C.A.

It is becoming more and more necessary for Canadian accountants to familiarize themselves with the regulations of the U.S. Securities & Exchange Commission. The reason for this is that a growing number of American companies are operating subsidiaries in Canada and there is a general increase in the number of Canadian companies selling securities in the United States. In "The Securities and Exchange Commission in Relation to Canadian Accountancy" Kenneth Carr, who has been with Clarkson, Gordon & Co. since 1943, looks at some of the more important features of the Commission's operations. The author states that the Commission's staff will readily give advice and assistance in problems which require special attention and copies of the complete statutes and other documents relating to the Commission can be procured through their Washington offices.

Mr. Carr has been a partner of his firm since 1951 and holds a B.A. and B.Com. degree from Queen's University, Kingston. His father, the late Austin H. Carr, will be remembered by many of our readers as a distinguished former editor of this journal.

HOWARD I. ROSS, O.B.E., C.A.

In "Oscars – Consolation for the Losers" Howard I. Ross takes issue with some of the desirable ingredients of financial statements as set forth in certain quarters in connection with annual report contests. He makes specific suggestions for giving the layman a clear general picture of a company and the financial analyst the basic data which he requires. "Those who lay down the rules are attempting to combine two admirable but irreconcilable objectives", Mr. Ross feels. "They are trying to get shareholders more interested in the company they own and at the same time are attempting to provide basic material for valuing investments in the company. These two things are both good in themselves, but to try to combine them in one report has serious disadvantages. The untrained shareholders and the expert analysts must both be considered but as their requirements are entirely dissimilar, the sensible solution would seem to be to require companies to issue two quite different types of statements."

After graduating from McGill and Oxford Universities, Mr. Ross joined the staff of P. S. Ross & Sons of Montreal and was admitted to the Institute of Chartered Accountants of Quebec in 1937. Since 1940 he has been a partner of his firm. During the war he spent three years with the Foreign Exchange Control Board and served as ration administrator under the Wartime Prices and Trade Board. For this service he was awarded the Order of the British Empire. Mr. Ross is a frequent contributor to this journal.

J. W. CROWE, C.A.

In Canada's expanding economy, income tax reductions, through using maximum capital cost allowances, have already reached very high levels for many companies. Mr. Crowe, in his article "A Look at Depreciation and Income Taxes", re-examines some accounting implications of this situation, particularly from the viewpoint of larger industrial firms. While there is lively difference of opinion about this topic, the author presents anal-

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yses which indicate that even in the long run most of these reductions represent real savings.

Mr. Crowe is supervisor of consolidated accounting for Canadian Industries Limited of Montreal. Since joining the company in 1947 he has been chief accountant of Defence Industries Limited and works accountant at C.I.L.'s plastic division plant at Edmonton. Earlier he graduated from the University of Manitoba as a gold medallist for the highest standing in the Honours Course in Economics. He became a member of the Institute of Chartered Accountants of Manitoba in 1943.

D. W. TURNBULL, C.A.

Although advertising dates back to the beginning of civilization, the advertising agency business is a development of modern times. Today in Canada a number of agencies are each placing from $5,000,000 to $28,000,000 a year of advertising for their clients and the commission received from advertising media constitutes the largest source of income to an advertising agency. Control must lie first in a sound system of handling and managing "literally thousands of pieces of paper" and, secondly, in constantly balancing accounting operations, says Douglas W. Turnbull. His appraisal of the problems is made in "Advertising Agency Operations and Control".

Mr. Turnbull is secretary-treasurer of Foster Advertising Limited of Toronto and has been a director of the company since 1953. He was formerly secretary-treasurer and comptroller of Consolidated Press Limited and Saturday Night Press. He obtained his certificate in chartered accountancy in 1949 and is a member of the Institute of Chartered Accountants of Ontario. Mr. Turnbull has served as a director of the Graphic Arts Association, chairman of the Cost Accounting Committee of the Periodical Press Association and is a member of the Executive Committee of the Continental Advertising Agency Network in the United States.

WILLIAM M. WILSON, C.A.

The financial statement for a period ending at a given date represents one instalment in the financial history of a company. However, events sometimes occur subsequent to the balance sheet date which may have a material effect on the financial statement or which may be important in connection with consideration of the statement. In such cases, what is the responsibility of the auditor in his reporting? In "Events Subsequent to Balance Sheet Date", William Wilson reviews the highlights of a bulletin published on this subject in October 1954 by the American Institute of Accountants and considers what is the basis of judging whether or not an event is of material importance. The author goes on to ask several contentious questions – "What is the subsequent period?": "what date should appear on the auditor's report?": "what should be the period between the completion of the audit work in the field and the signing of the auditor's report?". His appraisal of the subject should be of particular value to those engaged in auditing and reporting on accounts.

Mr. Wilson graduated from McGill University in 1947 and later received a Master of Arts degree from The Johns Hopkins University. He became a member of the Institute of Chartered Accountants of Quebec in 1951 and is presently with Price Waterhouse & Company in their Montreal office.

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No. 507B
Private
Branch Exchange
modern
compact
efficient
Photo—courtesy of The T. Eaton Co.
Photo—courtesy of National Life Assurance Co. Ltd.
Photo—courtesy of Jaeger Co. Ltd.
Photo—courtesy of Hyde & Ahearn.
Finished in neutral beige-gray colour with a fine wrinkle texture, the No. 507B P.B.X. will blend with the most modern office equipment. It is particularly adapted to operation by those who have other duties to perform in addition to switchboard attendance. The specially contoured keyhandles and smoothly working keys make this board a pleasure to operate.
Provides terminating equipment for 12 Station Lines and 5 Central Office Trunks and permits 5 Simultaneous Conversations.
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2054-2A

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LUCIE SIMONS

A Layman's Glossary of Accounting Terms has now been appearing regularly in the magazine since last November. Readers may be interested to know that artist Lucie Simons, whose husband is a chartered accountant, studied at the Chelsea School of Art and the University of London. Exhibits of her work have appeared at the Royal Academy and elsewhere. "When I looked through *The Canadian Chartered Accountant* I found that some of the terms used brought pictures to my mind which obviously differed from their professional meaning", she writes. This prompted pictorial representation which we hope our readers are enjoying.

EDITORIAL

The submission by accountants of a proper set of financial statements in connection with applications for bank loans is becoming an increasingly accepted practice. This has resulted in a growing number of bankers and members of the accounting profession concerning themselves with the adequacy of the audit report filed with banks. In this month's editorial, "Co-operation Between Accountant and Banker", Robert Saunders seeks to define where both professions fall short of requirements and offers suggestions as to how each can make significant improvements.

Mr. Saunders is currently chief accountant of the Toronto-Dominion Bank. His background includes both banking and accountancy, for in addition to having articled and obtained his certificate in chartered accountancy with Deloitte, Plender, Haskins & Sells, he joined the Dominion Bank in 1947 as deputy chief accountant. He served for five years during World War II with the Foreign Exchange Control Board and the Department of Munitions and Supply.

NOTES AND COMMENTS

C.I.C.A. Executive and Council Meeting

The Council of the Canadian Institute of Chartered Accountants, at its May meeting, appointed three new committees. Public relations, which up to now has been handled by a panel, will be the responsibility of a standing committee. A special committee has been set up to revise the uniform code of ethics and another appointed to consider ways and means of securing legislation to permit persons not presently participating in a pension plan to provide for retirement income through deductions from current taxable income.

Chairmen of C.I.C.A. committees for the coming year are as follows: H. P. Herington (Accounting and Auditing Research), Einar Gunderson (Government Accounts), C. K. MacGillivray (Magazine and Publications), L. C. Frewin (Taxation) and Charles E. Winters (Public Relations).

James Duncan was elected to the Executive of the C.I.C.A. as regional representative for Alberta, replacing C. K. R. Huckvale who resigned for personal reasons.

A "New Look" Members Directory

Next November the C.I.C.A. in cooperation with the University of Toronto Press will publish a members directory which will have a new look.

Comprising approximately 300 pages in a cloth-bound cover, the directory will contain not only the usual listings by Provinces but also a straight alphabetical listing of members. A third section will list all firms and sole practitioners, by town and Province, and include the names of the partners or principals of each firm.

This year chartered accountants are being given the opportunity of submitting their own biographical entries. In the past few days forms have been sent out to all members with a request to complete and return them to the University of Toronto Press not later than July 15. It is important that this be done in order to ensure complete and accurate listings.

The first edition of this new Chartered Accountants Directory, apart from being indispensable to members of the profession, will be a useful reference to chartered banks in Canada and abroad, other organizations and companies in contact with chartered accountants, and libraries in Canada and elsewhere.

The price will be $3, to non-members $6, and advance orders may be placed now.

A Guide for Students

Students who view the month of October with some trepidation will be glad to learn that a new brochure on how to prepare for and write the uniform examinations has just been published by the Committee on Education and Examinations of the Institutes of Chartered Accountants in Canada. Chapters of this book, which gets right down to "brass tacks", have

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been contributed by people with broad experience in the fields of C.A. education and examinations. Subjects and authors include "Preparing for Examinations" by D. C. R. Horne, director of education for the British Columbia Institute; "The Proper Approach to Examination Papers" by H. C. Dell, chairman of the Board of Instruction of the Ontario Institute; "Preparation of Examination Papers and Grading of Answers" by G. R. Ferguson, past chairman of the Board of Examiners-in-Chief; "Common Weaknesses in Candidates' Answers" by Gertrude Mulcahy, secretary of the Board of Examiners-in-Chief; "How to Complete Successfully the C.A. Course of Instruction" by Prof. W. G. Leonard, director of professional courses at Queen's University.

Copies of this brochure are now available from the Canadian Institute at 50c each. A convenient order form will be found on page 92 of this issue.

C.I.C.A. Annual Conference

Within recent weeks members of the C.I.C.A. will have received a preview of their 1956 annual conference in Halifax and have had a chance to apprise themselves of the interesting technical and social program that has been arranged. Registration and reservation forms will be sent out in July for completion and return to the local conference committee.

A Study of the Business Horizon

About 35 top Canadian business leaders met at Queen's University from June 10 to 15 to take a penetrating look at the new social and economic factors affecting Canadian business and to estimate the weight of these factors in the economy of ten years hence. The conference, called "The Challenge to Canadian Business", consisted mainly of informal discussions with some talks by men of outstanding reputation in the business world. Speakers and discussion leaders included Peter Drucker, New York management consultant; W. R. Steacie, director of the National Research Council; Sir Henry Tizard, former scientific adviser to the British Government; and Graham Towers, former Governor of the Bank of Canada.

Three chartered accountants, R. G. H. Smails, L. G. Macpherson and J. J. Macdonell, played a prominent part in the planning of this conference.

E.D.P. Centre for Canada

The first electronic data processing centre to be established in Canada will be opened this year in Toronto by International Business Machines Company Limited. Its services will be available to government, science and industry for all types of accounting, engineering and statistical applications, large or small.

In the News

Walter J. Macdonald of Winnipeg has been appointed chairman of the Business Advisory Council of the Manitoba Government.

Among those appointed to the board of trustees of the new United Community Fund of Greater Toronto are K. LeM. Carter, McDonald, Currie & Co.; Walter L. Gordon, Clarkson, Gordon & Co.; A. J. Little, Clarkson, Gordon & Co.

The honorary degree of Doctor of Civil Law was conferred on Harvey E. Crowell of Halifax at the spring convocation of Acadia University. Mr. Crowell is a past president of both the Nova Scotia Institute and the Canadian Institute of Chartered Accountants.

THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS

Notice of Annual Meeting

Halifax, Nova Scotia, September 11, 1956

The fifty-fourth annual meeting of The Canadian Institute of Chartered Accountants will be held in Halifax, Nova Scotia, at the Nova Scotian Hotel on Tuesday, September 11, 1956 at 11 a.m. for the reception of reports of the treasurer and Council, the election of auditors, and other business.

GERALD E. MARTIN
President

E. MICHAEL HOWARTH
Executive Secretary
Toronto, Ontario, June 15, 1956

Editorial

COOPERATION BETWEEN BANKER AND ACCOUNTANT

MANY YEARS AGO loans were made in a large measure on the strength of the personal reputation and standing of the borrower and, if a statement of affairs was submitted, it was usually prepared by himself or his staff. While character, capital and capacity are still the basic factors of a sound bank loan, the starting point for a commercial loan today is a proper set of financial statements, and it is becoming an increasingly accepted practice for most businesses to use the services of a professional auditor to certify them.

Although large corporations account for a substantial share of the total dollar amount of commercial loans, by far the greatest number of loans are made to small businesses. The financial statements prepared for these small businesses are probably used just as much for banking purposes as they are for the information of the owners and the Income Tax Division.

On receiving a set of financial statements, the branch manager reviews them item by item with his customer who may, on occasions, be accompanied by his auditor. Each branch manager has a discretionary loaning limit, which varies according to the importance of the branch and his loaning experience, within which he may make loans and grant lines of credit without first having to obtain the approval of his head office or divisional office. When a customer's requirements exceed this authorized limit, the manager will transcribe the figures from the statements on to standardized forms which are common to all branches for analytical purposes. In his report he will comment upon the various assets and liabilities, their relationship one to the other, important changes from the previous year, the valuation of inventories and receivables and the provision for income tax and other liabilities. He will also discuss the operating results and refer to any contemplated capital expenditures and forward-commitments of consequence and the adequacy of the reserves and income tax provisions. His report will be accompanied by a statement showing the disposition of funds during the year and the effect on the working capital position.

In general, the financial statements and accompanying reports

submitted to the banks serve their purpose very well in providing basic information. As all accountants are aware, however, they have their limitations and need to be used with discretion. The current trend in the accounting profession towards a uniform terminology is a step in the right direction. The amount of pertinent information provided by current statements and reports varies considerably and, to some extent perhaps, it is the banker's fault if some of them fall short of his requirements. He is in a position to make his requirements known to his customers and, through them, to their auditors.

A useful contribution is made by some audit reports in the form of an aged analysis of accounts receivable and comments on the adequacy of the allowance for doubtful accounts. Together with his knowledge of the daily deposit transactions this gives the banker a fair idea of the efficiency of his customer's collections and of the ultimate collectibility of the accounts receivable reported on the balance sheet.

The valuation of inventories is a matter of major interest to the banker. Some auditors explain in their reports the steps they have taken to verify this important item, including an outline of the basis of valuation used for each of the major components and the allowances made for obsolete and shopworn goods. This is a very helpful feature. If the banker knows what has and has not been done by way of verification, he can then determine what additional inquiries he should make to satisfy himself as to the valuation he can safely accept for lending purposes. Frequently the only reference made to inventories is the statement on the balance sheet "as determined and certified by the management" and the reader is left in the dark as to just what amount the inventory may be expected to realize.

Another subject that frequently causes concern to the banker is making sure that all liabilities have been reported. This is a difficult item for the auditor to verify and he presumably relies, in part, on a certificate given him by the management. It is possible that, on occasion, a consultation between banker and auditor would bring to light actual or contingent liabilities that might not be apparent from the records of the customer at time of audit but which might have shown up in discussions between the banker and his customer having to do with future transactions. Audit reports vary considerably in the amount of information given about contingent liabilities and forward-commitments, an important matter for banking purposes.

While it is recognized that the auditor is acting for his client rather than for the bank, there can be no doubt of the importance of the financial statements and auditor's report in maintaining the client's line of credit at the bank. Perhaps there is a fruitful field here for cooperative development by bankers and the accounting profession of a uniform style of financial statement and audit report that would provide the banking information required with the minimum of cost for small businesses.

The Securities and Exchange Commission in Relation to Canadian Accountancy

G. KENNETH CARR

In recent years a growing number of Canadian accountants have found it necessary to acquaint themselves with the rules, regulations and procedures of the United States Securities and Exchange Commission. This is a result, in large part, of the substantial increase in the number of subsidiaries of U.S. companies operating in Canada as well as in the number of Canadian companies selling securities in the United States. Where the statements of a Canadian subsidiary of a U.S. company form part of a consolidated report which is being filed with the S.E.C., or where a Canadian company is selling securities to the U.S. public or has its securities listed on a U.S. securities exchange, it is essential for the Canadian accountants (both those within the company and those who are reporting independently on its financial statements) to be familiar with S.E.C. requirements.

It would, of course, be impossible in a digest of this kind to give any very complete picture of the Commission's operations, or to attempt to summarize, even in a general way, all the rules and regulations issued under the various Acts which the Commission administers. Exceptionally large in number, these rules and regulations deal in considerable detail with a great variety of subjects. The most important, from the accounting point of view, relate to the various registration statements and reports that must be filed with the Commission, and to the form, content and certification of the financial statements and schedules included in them.

Certain rules are of particular interest to the Canadian accountant and are outlined below.

Organization and Responsibilities of the S.E.C.

The Securities and Exchange Commission is an agency of the United States Government whose chief concern is the full and fair disclosure of pertinent information for the protection of the U.S. investing public. It administers a number of Acts relating to the issuance of, or trading in, securities. The most important of these Acts are the Securities Act, 1933 (governing the offering and selling of securities) and the Securities Exchange Act 1934 (applying to trading in securities on national securities exchanges and related matters). To ensure their proper administra-

tion, provision is made that all securities listed or to be listed on national U.S. securities exchanges, and most securities offered for public sale in the United States through interstate commerce or through the mails, must be registered with the S.E.C. In addition companies whose securities are registered under either Act must file annual and other periodic reports with the S.E.C.

The Commission is composed of five members appointed by the President, with the consent of the Senate, for five year terms. It is assisted in its duties by a large staff of lawyers, accountants, engineers, corporation analysts and administrative and clerical employees. The staff is divided into a number of separate divisions, of which the two best known to accountants are the Division of Corporation Finance and the Office of the Chief Accountant.

The Division of Corporation Finance is primarily responsible for examining the security registration statements, prospectuses, proxy statements and periodic reports of issuers, officers, directors and important security holders. The chief accountant is the Commission's principal adviser on accounting and auditing matters. He supervises the execution of Commission policy with respect to accounting principles or practices relating to financial statements filed with the Commission and makes any necessary interpretations or applications in unusual or complex situations. He must also prepare the Commission's accounting regulations and releases.

The central office of the Commission is in Washington, and it is there that most of the examining and reviewing activities are carried on. In addition the Commission has nine regional offices and four branch offices, located in the larger cities of the United States, whose activities are largely concerned with investigation and enforcement. It also maintains a reference room in its Washington office where members of the public may examine registration statements and reports filed under the various Acts. Photocopies of registration statements, annual reports and other public material, or portions thereof, may be obtained from the Commission upon payment of a small charge.

Registration Under the Securities Act, 1933

The Securities Act of 1933 requires that an issuer of securities who intends to offer such securities publicly in the United States through interstate commerce or by use of the mails must first file registration statements with the S.E.C. on prescribed forms. Until this registration statement has "become effective" it is unlawful for him to sell such securities. Ordinarily it "becomes effective" on the 20th day after date of filing, provided the issuer has corrected any deficiencies in the statement of which he may be advised by the Commission following the latter's review. The entire emphasis in the process is on adequate and truthful disclosure of material facts so that potential investors may have a fair and sound base upon which to judge the securities being offered. The actual merits of the securities are, however, not passed upon by the Commission, nor does the Commission attempt to insure investors against loss.

The general form used for registration under the Securities Act of 1933 is form S-1. Some other form is pre-

scribed in a few special situations, e.g. mining corporations in the promotional stage (S-3), certain types of unincorporated employees' stock purchase plans (S-8), or exploratory mining corporations (S-11). However, form S-1 is the most common and must be used in all cases where no other has been specified.

Registration with the S.E.C. does not of itself permit the sale of securities publicly on a national basis. The Act requires also that a prospectus must be furnished to the investor to whom the securities are sold. A copy of the proposed prospectus must be filed with the registration statement. In fact, it is an integral part of the registration statement itself. Form S-1 registration statements ordinarily consist of two sections: Part I which will eventually become the prospectus document (once the registration has become effective), and Part II which outlines certain additional information required in the registration statement but not in the prospectus, e.g. details of estimated expenses of issuance and distribution, list of subsidiaries of registrant, provisions of any charter or by-law covering indemnification of officers and directors, schedules in support of financial statements and various exhibits.

The prospectus portion of the registration statement sets out much the same data as generally appears in the prospectus of a Canadian company which is raising money in Canada, e.g. details regarding place of incorporation, history and description of business, location of principal plants and properties, capital structure, details of securities being offered, intended use of proceeds, balance sheet and profit and loss information and outstanding options. In many cases, however, the detail demanded for these items is greater than under relative statutes in Canada. Furthermore fairly complete information must be given concerning certain matters which are ordinarily looked upon in Canada as being in the "confidential" category, e.g. remuneration of directors and officers and shareholdings of larger shareholders. Disclosure must be made of the amount of direct remuneration paid by the registrant and its subsidiaries during the last fiscal year to

(i) each director, and each of the three highest paid officers, of the registrant whose aggregate direct remuneration exceeded $30,000;

(ii) all directors and officers of the registrant as a group (without naming them).

If any part of the remuneration shown under this item was paid pursuant to a material bonus or profit sharing plan, a brief description must be given of the plan and the basis upon which directors or officers participate in it. In the case of each person referred to under (i), details are also required as to amounts set aside or accrued by the registrant and its subsidiaries for such person under a pension or retirement plan, and the estimated annual benefit to which such person will be entitled on retirement.

Disclosure of shareholdings of larger shareholders must include the name, address and holdings of each person owning more than 10% of any class of voting securities.

Instructions accompanying the applicable registration form prescribe the financial statements which must be presented in the prospectus and/or registration statement. Form S-1, for example, requires:

In the prospectus (Part I of the registration statement):

(a) A summary of earnings in comparative columnar form for at least the last five fiscal years, and for the interim period (if any) between the end of the latest of such fiscal years and the date of the latest balance sheet furnished under (b) below. If the results for such interim period are included in the summary of earnings then the results for the corresponding period of the previous year must also be shown.

(b) A balance sheet as of a date within 90 days prior to the date of filing the registration statement. (In certain circumstances this period may be extended to six months). This balance sheet need not be certified, but if it is not certified then in addition the registrant must file a certified balance sheet as of a date within one year (unless the registrant's fiscal year has ended within 90 days prior to the date of filing, in which case the certified balance sheet may be as of the end of the preceding fiscal year).

(c) Profit and loss and surplus statements for each of the three fiscal years preceding the date of the latest balance sheet filed, and for the period, if any, between the close of the latest of such fiscal years and the date of the latest balance sheet filed. These statements must be certified up to the date of the latest certified balance sheet filed.

(d) Certain supplementary profit and loss information (for each of the periods for which profit and loss and surplus statements are filed) respecting charges or expenditures for maintenance and repairs, management and service contract fees, rents and royalties, taxes (other than taxes on income) and depreciation, depletion and amortization.

In Part II of the registration statement (Information not required in prospectus):

(a) Various supporting balance sheet and profit and loss schedules which shall be certified wherever the corresponding balance sheet or profit and loss statements to which they relate are certified.

(b) Certain prescribed historical financial information for the seven year period preceding the three fiscal years for which profit and loss statements are filed.

The instructions to the applicable form specify the conditions under which the above statements are to be furnished on a consolidated basis, or for the registrant only, or both.

Exempt Security Issues

A few classifications of security issues are exempt from the provisions of the Securities Act, 1933. From the Canadian point of view the most important are those offered by Canadian issuers where the aggregate offering to the public does not exceed $300,000. This exemption, which is granted under the Commission's regulation D, corresponds to the exemption granted in similar circumstances to domestic issuers in the United States under regulation A. In both cases, however, an offering circular or prospectus setting out certain minimum information must be used.

With regulation D exemptions, copies of the proposed circular and related "letter of notification" (on form 1-D) must be filed with the commission at least 15 days before making the initial offering. The information to be contained in the circular is of the same general nature as that required by the prospectus portion of form S-1 although the specifications regarding the amount of detail to be shown and the form and content of the financial statements are less onerous. At the moment the rules do not require that these financial statements be certified. However, the Commission is currently considering certain revisions to regulation D,

one of which may call for the certification of financial statements. It is also proposing to consolidate regulation D exemptions (previously restricted to Canadian issuers) with regulation A exemptions (previously restricted to U.S. issuers) so that in future one general regulation will cover both types.

Regulation D provides for the filing of a report with the Commission at the end of six months showing the number of securities sold since the date of the offering and the total proceeds received. (This must be supplemented by additional statements at six monthly intervals until the total issue has been sold or the offering withdrawn). Apart from that there is no requirement under this regulation to file further annual or other periodic reports.

Registration Under the Securities Exchange Act, 1934

The Securities Exchange Act, 1934 provides for the registration of securities listed on national U.S. securities exchanges. Registration is also required for national securities exchanges themselves, for brokers and dealers trading in over-the-counter markets, and for associations of such brokers and dealers. In addition the 1934 Act empowers the Commission to govern the solicitation of proxies from the holders of listed securities.

A company seeking trading privileges on a U.S. securities exchange is obliged to file a registration statement with the Commission and also with the exchange. The form most generally applicable in such cases is form 10. The information to be set out is similar in most respects to that required under form S-1, except that profit and loss information need only be given for the last three fiscal years. (More extensive earnings information would, however, ordinarily be asked for in the separate listing application filed with the Exchange).

The Securities Exchange Act, 1934 also requires statements of beneficial ownership to be filed on a current basis by directors, officers and owners of more than 10% of any class of equity securities.

Periodic Reports

When a company becomes registered under the Securities Act, 1933 and/or the Securities Exchange Act, 1934 it must file supplementary and periodic reports with the Commission on a continuing basis. An annual report, for example, has to be filed within 120 days after the close of each fiscal year, or within such other period as may be specified in the particular report form. Form 10-K, which is the general form used for such annual reports, is designed to keep current much of the information which appeared in the original form S-1 or form 10 registration statement. It requires, for example, disclosure of all materially important changes in the business during the year as well as current information regarding shareholdings of any person owning more than 10% of the outstanding voting securities, remuneration of directors and officers for the last fiscal year (showing approximately the same detail as that required by form S-1), share options granted or exercised during the year, etc. Complete financial statements and supporting schedules in prescribed form for the last fiscal year must also be included. A very brief semi-annual report (form 9-K) is also required within 45 days of the end of the first six

months of each fiscal year. It summarizes a few of the principal profit and loss items for such period, i.e. sales, net income before taxes, provision for taxes, net income after taxes, special or extraordinary profit and loss items, and surplus debits and credits.

A current report on form 8-K must be filed within 10 days after the close of any month in which certain events deemed to be of material importance to security holders have taken place. These include such things as changes in control of the registrant, defaults upon securities and increases or decreases in amount of securities outstanding.

Changes in the beneficial ownership of securities must be reported on form 4 on a current basis, for directors, officers and principal stockholders holding more than 10% of any class of equity securities.

Accounting and Auditing Requirements

While the various forms (S-1, 10, 10-K, etc.) lay down certain rules as to the type of financial statements which are to be filed with the applicable forms, the Commission has also issued a general form of regulation which governs

(a) the exact form and content of all such statements,

(b) the schedules which are to be held in support thereof, and

(c) the form of audit certification.

This regulation, known as regulation S-X, deals in considerable detail with matters of disclosure, consistency of accounting treatment, etc. In addition the Commission has published from time to time a number of opinions on certain major accounting principles and interpretations of regulations. These are called "Accounting Series Releases".

It would be impossible to list all the rules in regulation S-X concerning the form, content and certification of financial statements and schedules. However, the following are a few of the main requirements:

Information required to be set out in notes to financial statements

(a) Details and effect of any change in accounting principles or practice;

(b) Capital expenditure commitments and rental commitments under long term leases;

(c) Brief summary of employee pension or retirement plans;

(d) Restrictions which limit the availability of surplus for dividend purposes;

(e) Contingent liabilities;

(f) Basis of accounting followed with respect to depreciation, depletion, obsolescence and amortization;

(g) Details of capital stock optioned to officers and employees.

There is provision for omitting any portion of the required information where the amount involved is not "material". The definitions set out in rule 1-02 of regulation S-X provide that "the term 'material', when used to qualify a requirement for the furnishing of information as to any subject, limits the information required to those matters as to which an average prudent investor ought reasonably to be informed before purchasing the securities registered".

Details required to be included in financial statements

Specific rules are laid down as to the various items and captions in the balance sheet and profit and loss statements which must be set out separately. The following two requirements are of interest because they probably go beyond the basis of dis-

closure followed by many Canadian companies —

(a) Profit and loss statements must show both "Sales" and "Cost of sales".

(b) In the case of inventories, there must be shown, if practicable, the major classes of inventory such as (i) finished goods, (ii) work in process, (iii) raw materials and (iv) supplies.

The basis of valuation must be stated, i.e. "cost", "market", or "the lower of cost or market", and an indication given as to the method of determining "cost" or "market", e.g. "average cost", "first in, first out" or "last in, first out".

Rule 5-03 of regulation S-X provides that all items of profit and loss given recognition in the accounts during the period must appear in the income statement (rather than as charges or credits to surplus). Extraordinary items which are material in relation to the company's net income, and are clearly not identifiable with or do not result from the usual or typical business operations of the period, are to be shown as "special items" in the income statement below the figure labelled "Net income or loss" for the year.

Supporting schedules required to be filed

Regulation S-X also requires the submission of a number of schedules in support of various balance sheet and profit and loss balances. For example, schedules setting out certain prescribed information are ordinarily required for

(a) marketable securities and other security investments,

(b) amounts due from directors, officers, and principal holders of equity securities other than affiliates,

(c) investments in securities of affiliates,

(d) property, plant and equipment,

(e) reserves for depreciation of property, plant and equipment,

(f) supplementary profit and loss information;

(g) income from dividends — equity in net profit and loss of affiliates.

Conformity to accounting principles generally accepted in the U.S.

It is generally presumed that the accounting principles used in preparing financial statements filed with the S.E.C. are largely accepted in the United States. In a few instances a foreign company registering with the S.E.C. has not been required to conform to American accounting principles because different principles were upheld in the country of the company's origin and compliance in those circumstances might be misleading. However, such situations are unusual. While Canadian and American accounting principles are alike on the whole, a few differences do exist. Anyone preparing or reporting upon financial statements being filed with the S.E.C. should therefore be familiar with what is "generally accepted" in the United States. He should have a knowledge, for example, of the "Accounting Research Bulletins" of the American Institute of Accountants as well as of the S.E.C's own "Accounting Series Releases".

Auditing standards

Regulation S-X lays down very specific rules regarding the certification of financial statements filed with the Commission. These rules deal with qualifications of accountants, the form of the accountant's certificate, the certification of financial statements by more than one accountant, etc.

Rule 2-01 of regulation S-X provides that the Commission will not recognize any person as a public ac-

countant who is not in good standing and entitled to practice under the laws of the place of his residence or principal office. Furthermore, the accountant is not considered independent with respect to any company or its affiliate in which he has any financial interest, direct or indirect, or with which he is, or was during the period of the report, connected as a promoter, underwriter, voting trustee, director, officer or employee.

Rule 2-02 outlines the form of audit certificate to be used. This follows along the general lines recommended by the American Institute of Accountants. An opinion must be given as to any material changes in accounting principles or practices during the period.

There is again a general presumption that the auditing standards followed by the certifying accountant are those which are recognized as "generally accepted" in the United States. Thus a Canadian accountant reporting upon statements filed with the Commission should include in his audit program the observation of physical stocktaking and the confirmation of accounts and notes receivable, if these items are material or significant in the accounts. Here again a knowledge of the "Statements on Auditing Procedure" issued by the American Institute of Accountants as well as of that Institute's booklet entitled "Generally Accepted Auditing Standards" is a prerequisite.

For More Information

The S.E.C's rules and regulations as they affect corporate financial statements are complex and need an exact and detailed study whenever the circumstances warrant it. Any accountant in Canada who is responsible for the preparation of, or reporting upon, financial statements or reports filed with the Commission (or statements and reports consolidated with those of a U.S. parent company filing with the Commission) should at the minimum have available for reference a copy of the Commission's regulation S-X and "Accounting Series Releases" as well as a copy of the applicable form or forms covering the type of registration or report being made. Copies of the complete statutes and of the various rules and regulations, forms and releases can, if required, be procured through the Commission's offices in Washington. Also the Commission's staff is most cooperative in rendering advice and assistance on specific problems brought to its attention.

Oscars - Consolation for the Losers

HOWARD I. ROSS

PERHAPS IT IS a natural reaction or perhaps it is just a coincidence, but as the Welfare State extends its regulatory grip more and more firmly over our economy, man's competitive instincts seem to break out in other directions. Athletic contests are booming. Beauty contests, which until recently were confined to one annual bout of insanity at Atlantic City, have now multiplied so that two high school basketball teams can hardly play each other without first electing a carnival queen. Even the most sober group of pharmacists, assembled in convention for technical discussions, must first pause to select someone as "Miss Anti-biotics of 1956". The same competitive urge is spreading to other fields – such as writing and acting – and has finally involved even those fictitious persons that come into being by incorporation under our company legislation.

Competitions between corporations centre on annual financial statements. It must be obvious to everyone that prizes for the best statements have stimulated a great deal of interest in the subject and have led to notable improvements. It may sound querulous to disparage an innovation which has led to such good results, but the trend towards Oscars for annual statements has become very strong and is not far from becoming a generally accepted part of the scheme of things. It might therefore be desirable to examine the assumptions on which these competitions are based and to make sure that in all respects the well-intentioned judges are on the right track.

Criteria for Judging Statements

That well-known English journal, *The Accountant,* has sponsored one of these competitions. Mr. Montagu Gedge, Q.C. was chairman of its first panel of judges and, in presenting the first award, he is quoted as saying "I know everybody here will be anxious that I should describe the various factors which the panel of judges took into account when coming to their decision, but I am not going to do so. [Laughter]". One can only infer from this report that Mr. Gedge was addressing a most responsive audience – probably one that appreciated the admirable reserve so characteristic of his learned profession. But other panels have been less reticent. For example, the American publication *Financial World* has been running an annual report competition for many years and, rejoicing in its

knowledgeability, has given a very full account of the factors taken into consideration by the judges appointed to conduct its fifteenth annual survey. This gives us an opportunity to examine the criteria used. As the *Financial World* (issue of June 29, 1955) says "In serving the investing public, both large and small, for almost half a century, *Financial World* was well aware of the quality and variety of information required by the average stockholder. The entire editorial approach of the publication has been to simplify, interpret and define all available information about a corporation in an effort to determine the investment or speculative attractiveness of a stock."

Basic Assumptions

Underlying most of these competitions are two basic assumptions which need to be carefully scrutinized. These are –

a) that the average shareholder (defined as someone with no accounting training who cannot be expected to understand technical terms like, say, "deferred revenue") must be given easily readable information so that he can value his investment (from which the inference is that the affairs of a large public corporation are essentially simple and would be immediately understandable to the most untrained of minds if only accountants and auditors would stop confusing the picture with needless technical jargon) and

b) that the shareholder cannot be expected to be interested enough to read about the company in which he has invested, unless every possible device is used to coax him along – like illustrations, graphs, the use of colour and so on.

The first assumption seems to gloss over the awkward fact that the typical, modern, public corporation is a large and complicated organization dealing in varied products and services; operating under many different legal jurisdictions; working in an economy about whose economic laws experts still debate; and producing and selling in the midst of changing monetary values, fluctuating commodity prices and varying labour supply. Such a corporation also operates in the midst of rapid technological changes and varying fashion whims. At any given time, there are goods in transit, political developments brewing and all sorts of contracts in different stages of contemplation, negotiation and completion. It is somewhat of a miracle that, in the midst of all this confusion and these vagaries, the modern corporation can produce a simplified statement, reduced to a couple of dozen figures, which means anything at all. Obviously it is ridiculous to pretend that someone without proper training can reach a sensible conclusion about the value of his investment by examining even the finest Oscar-winning financial statement ever produced.

In case this basic contention is not self-evident, let us eavesdrop on a couple of untrained shareholders going through the processes of valuation which they are apparently assumed to make.

This is the scene one might expect:

SCENE: *The living room of the home of Mrs. Winnie Zilch, a widow whose husband has died recently leaving her 1,000 shares of Mutilated Products Inc., 100 shares of Dilapidated Paper Limited and a modest annuity. As the curtain rises, Mrs. Zilch is discovered with Mr. Fred Clunk, a retired salesman. Mr. Clunk's parents have just "passed on", so he finds himself orphaned at the age of 67, thus constituting with Mrs. Zilch a representative cross-section of that large group of average shareholders, the widows and orphans, who must have recourse to financial statements to keep track of the companies in which they invest. As a matter of fact, in this instance the two friends are in the act of reviewing several sets of annual statements, in contemplation of a possible switch in investments.*

WINNIE: It's awfully good of you to come over and help me with my investment problems, Fred.

FRED: Not at all, but you know I'm no hot-shot accountant. Always was on the sales side. Never could abide all that figuring that used to go on in the accounting department. Now if you are going to buy some United Larceny like this friend of mine I was telling you about advises, you will have to sell one of the stocks you now have.

WINNIE: (*cautiously*) Why? I don't get it.

FRED: So you'll have some money to buy the other stock with. Now the first question is, which of the stocks should you sell? I've looked it up in the paper and I find Mutilated is selling at $3 a share and Dilapidated at $100.

WINNIE: Well that sounds easy enough I must say, we'll sell that miserable $3 stock.

FRED: Yeah, honey, but that's not the way you do it. We've got to study these here financial statements and figure out which one is the best to sell. Now first of all, here's the statement of Dilapidated.

WINNIE: Good gracious, Fred, surely you don't expect me to read that old black and white thing. Ugh! Looks like a card of condolence or something. Can't we start on the attractive one with the glossy cover and vista-chrome illustrations?

FRED: O.K., that's the one for Mutilated. (*He hands it to her.*) Incidentally, I hear it won an Oscar in a big competition. Now the way I understand it, you start by reading the auditors' report.

WINNIE: (*After thumbing dutifully through the booklet*) There isn't one.

FRED: Don't be silly, they'd never have given them that Oscar if they forgot the auditors' report. (*He looks over her shoulder.*) See, here it is on this page headed "A WORD OF REASSURANCE FROM YOUR FRIENDLY CHARTERED ACCOUNTANT".

WINNIE: So that's it. Certainly looks just fine to me. The way they've printed every second line in a different kind of type sure is cute, and it takes your mind off the dullness of what they're saying. Now what next?

FRED: Well – ah – ah, let's see, you ought to check on the sales.

WINNIE: (*Pouring over a page with a fierce effort at concentration*) There weren't any.

FRED: That's impossible, they must have had some. All these big companies sell something.

WINNIE: No, I've been over this balance sheet carefully, twice, and they don't mention sales.

FRED: Here let me have a look at it. Now, let's see ——— ah, yes here they are. They call them "Amounts due from customers for goods purchased by them". That is some of their technical jargon – just means "sales". Well, seems like that's all right, way up from last year.

WINNIE: What's next?

FRED: Well we should make sure the balance sheet balances. An auditor friend of mine once told me that if the books don't balance, anything, just anything, can happen. (*Looks at total assets and then total liabilities*) Right to the exact dollar – never could understand how those fellows did it. Just a minute now here's a note, let's see what it says. (*Reads*) Oh-oh, this doesn't sound too good to me, it says no depreciation was provided during the year.

WINNIE: Well, what's wrong with that? Surely you wouldn't want a company that goes on depreciating. Land sakes, poor dear George once bought a stock at $80 and it depreciated right down to nothing. He used to say it was the worst investment he ever did make.

FRED: Yeah, but I don't think this is quite the same thing. I remember one year my boss said we hadn't made much profit but that there had been a lot of depreciation – he seemed to be quite pleased about it, like it was a good thing.

WINNIE: Probably just trying to be cheerful to keep your spirits up.

FRED: (*dubiously*) Probably. Anyway it says here that the company was incorporated under the laws of Ontario, and I don't imagine those guys stand for any nonsense. Now let's analyze the statements of Dilapidated Paper.

WINNIE: What, that dingy old thing? I just couldn't bring myself to read that.

FRED: O.K. Then you're satisfied with the Mutilated, eh? We can go ahead and sell that.

WINNIE: Yes, only if everything's so good and so satisfactory about it, why do we sell it?

FRED: (*Trying to be patient*) Well you want to get some of this United Larceny don't you? They got some big government contracts and a fellow was telling me that if he had some shares, he sure wouldn't sell them. In fact he'd buy more. And he happens to

be a personal friend of the general manager. He says anyone who bought it would double his money by next summer.

WINNIE: Double your money? Let's see 1,000 shares at $3 each is $30,000 and double this is $60,000. Say that would be just fine, go ahead and get me some of that United What's-its-name.

CURTAIN

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While it is all very well to chuckle at the plight of the untrained analyst, it is only fair to remember that even the best trained financial expert with access to all available information has great difficulty in assessing the value of an investment. For example, take the case of the general manager of a large corporation. Let us suppose that he has had a brilliant career in engineering or commerce at a first-class university, has had a long experience with the corporation in its main departments and has a well-trained staff at his disposal to produce all the information he needs. Even under these ideal conditions, it would be hard for even the most brilliant administrator to be cock-sure about any valuation he made.

The Dangers of Simplification

We hear a great deal about confused and complicated statement presentation, but it is at least as important to remember the dangers of a too-facile simplification. It boils down to this – it is anything but helpful to give the impression that something is simple when in fact it is essentially complicated. The extent of such dangers may be seen from considering interpretations that may easily be put on some of the accounting data which most people would advocate for inclusion in financial statements.

a) Sales

The general idea is that an increase in sales is a favourable development, and a decrease unfavourable. Yet a decrease in sales may be the result of disposing of an unprofitable subsidiary. If this has been done at a good price, the change may be favourable and not unfavourable. There are a great many other possibilities which would make increases in sales unfavourable, and the composite figure appearing in the financial statements of a large publicly-owned corporation is the net result of a great many factors. It is obviously extremely dangerous to base any assumptions on a simple change in sales volume without a searching analysis.

b) Gross or Net Profit Rate

Prima facie, an increase in either rate is favourable, but such increase may merely reflect a shift to more speculative lines or to special export contracts which will not be renewed in future.

c) Working Capital

It seems generally to be supposed that if working capital increases it is a "good thing", but an increase may merely result from the sale of a plant. If the plant is a good one, the increase in working capital may reflect an unfavourable development. Moreover, an increase in "working capital" may be the result of piling up inventories and reducing cash resources, and whether this is a good or bad thing depends on the state of the market, the nature of the goods and who knows what else.

d) "Highlights"

Just consider the dangers of the "highlights" which many writers encourage companies to include in financial statements. Obviously it is risky to imply to an untrained person that these highlights are more significant or more easy to interpret than they really are.

e) Comparative Figures

A really bold person might even take a pot-shot at that most sacred of all sacred cows — comparative figures for the preceding year. This is placed first in a list of desirable features in a recent issue of the *Financial Post,* which also runs an annual competition. It would be silly to pretend that the inclusion of prior year figures does anyone much harm. But is it so invariably helpful that it should be insisted upon in every case? Surely any stereotyped comparison is undesirable. It is easy to think of cases in which some other set of figures would provide a better comparison. For example, in an industry undergoing a period of depression, a comparison with figures five years ago may be of much more interest. Or in the case of a steadily expanding company, a gradual increase in assets and liabilities may not show up in all its significance if each year is compared with the previous year, but may be illustrated clearly by a comparison between two balance sheets ten years apart.

f) Explanations

Some of the developments suggested in the preceding paragraphs can be adequately covered by explanations in the directors' report, but the exigencies of space (not to mention other considerations) make it impossible to deal with more than a very limited number of the many, many factors that affect a company's figures.

Some Other Obsessions

The items mentioned above, while open to criticism, are obviously important bits of financial information, but the judges of financial statements in some cases have trodden more debatable ground.

a) Literary Style

Apparently the *Financial World* gives extra marks for the use of "newspaper English". Surely this is open to debate. Different styles of prose are appropriate for different purposes, and it seems at least questionable to suggest that a style developed to be serviceable to the reader who skims through newspapers is appropriate for a document such as the annual report which, if it is to be useful, must have serious study. There are many other good styles, such as biblical English, legal English and so on. That such things are a matter of individual taste is illustrated by the fact that the *Financial World* objects that some annual reports "could be mistaken for a mortician's circular". While I have never seen a mortician's circular, I have seen morticians and it has never occurred to me that there was anything very wrong with the public relations of that lively and aggressive group.

b) Length of Report

It comes as a bit of a shock to find that the *Financial World* insists on a certain minimum length for reports ("the report must have at least twelve pages including cover"). In these days when there is so much to read, it would seem that anything which discourages brevity must be viewed with concern.

c) Act under Which Incorporated

A strange sort of importance appears to be attached to the question of the Act under which the company is incorporated. For example, the *Financial Post* points out that, in its competition last year, one report was extremely good, a judge suggesting only two possible criticisms – "The Act under which company was incorporated should be shown, and the name of the consolidated subsidiary given." As far as the name of the subsidiary goes, this would be important information if the subsidiary was a large operating unit but if, as is often the case, the subsidiary is a real estate holding company, or something of the sort, the information would seem to be of practically no importance at all. As far as the Act of incorporation goes, it seems strange to insist on specifying this in a statement issued to the shareholders. Granted that the matter is not irrelevant and even that it is very important to some people (such as the auditor), to the average untrained shareholder there are several hundred things about the company which have more significance.

d) Minimum Size

The *Financial World* lays down specifications for minimum size, which would seem an unnecessary rigidity to introduce in judging statements.

e) Artwork

The *Financial World's* judges describe some of the artwork as "amateurish", but have we not enough troubles of our own without opening up the whole debatable field of artistic criticism?

f) Humour

Even humour is tackled in the *Financial World's* write-up. This dangerous subject is dealt with in the following paragraph:

> "A good sample of financial humour will be found in the 1954 annual report of A. B. Chance Co., a little electrical equipment manufacturer of Centralis, Missouri – in one cartoon the management gets across the success of its profit-sharing plan."

While profit-sharing plans do have their critics, this paragraph (which is the *Financial World's* comment of humour, quoted in its entirety) may, to some ears, sound just a little cynical.

Fundamental Confusion

It seems that most of these criticisms arise from the fact that those who lay down the rules of contests for annual statements are attempting to combine two admirable but quite irreconcilable objectives. In the first place, they are trying to get shareholders more interested in the company they own and, in the second place, they are attempting to provide the basic material for valuing investment in the company. These two things are both good in themselves. However, to try to combine them in one report has serious disadvantages.

It must be obvious that anyone without accounting or business training cannot expect to be provided with a brief summary of facts which will enable him to reach any reliable conclusion regarding the value of an investment. If someone finds terms like "deferred-charges" or "accrued expenses" confusing, it is a bit of criminal irresponsibility to encourage him to believe he can value such a complicated thing as a share in a large

public corporation. He must rely on the advice of expert statement analysts. While annual statements are addressed to the shareholders, they are also of the greatest interest to the professional investment analysts. The untrained shareholders and the expert analysts must both be considered and as their requirements are entirely dissimilar, the sensible solution would seem to be to require companies to issue two quite different types of statements.

In the first place, there would be a report to the shareholders and, in the second place, a statistical summary for the experts. This is somewhat analogous to what is in fact done, say, by life insurance companies. Such companies produce a brief popular form of statement for their shareholders and policyholders, and then an extremely detailed analytical report for the Department of Insurance. There is also an analogy in the procedure in the United States under S.E.C. regulations, where companies produce a popular form of report for shareholders and an extremely detailed summary for the Commission. This does not mean that the S.E.C. form is ideal for statement analysis, but something along the lines of a statement, without pictures or other elaborations and dealing more with figures, is what is required. A map with symbols to indicate the location of plants may be just dandy for Fred Clunk, but it is a clumsy device in getting information across to the analyst, who will understand if you just tell him the plants are at Halifax, Montreal, Toronto and Vancouver.

Conversely, a table showing summarized balance sheets for the past ten years clutters up the popular form of statement to shareholders and must be counterbalanced by several expensive pages of photographs showing Powers Models, with bandanas round their heads, pretending to work in the company's plant. In turn, the Powers Models distract the analyst, who must now be mollified by the inclusion of a page or two of balance sheet footnotes so technical that only he can understand them, and so the vicious circle goes. Every company seems to try to strike a balance between these two competing requirements, but no really satisfactory solution is possible unless two statements are issued.

Technical terms may be confusing to the uninitiated, but they have a more precise meaning for experts than the other terms have. In fact that is what they are for. The accounting profession is perhaps not remarkable for the precision of its terms, but some progress has been made. For example, the term "accounts receivable" has a quite definite meaning to the accountant, but if we attempt a popular circumlocution and end up with something like "amounts owing to the company", no one can be quite sure whether these are amounts arising in the course of trade, or when they are due, or whether proper allowance has been made for uncollectible items.

To illustrate this basic point further, let us consider graphs. Graphs are a useful device for some purposes. Essentially they give the quick general picture that many shareholders desire. But in statement analysis, graphs are simply a nuisance. A table of figures is much easier to work with. For example, a row of cartoon-style drawings depicting a workman in overalls (each drawing increasing in size over the one before it) may serve to illustrate in a general way the growth of a

company's labour force. However, one attempting to work out productivity per man, or some such calculation, does not want a series of drawings; he wants a simple set of figures showing the number of employees at different periods.

The Shareholders' Statement

The annual report to the shareholders would of course remain an extremely important document and, as companies are becoming increasingly aware, there is a big public relations job to be done on shareholders. Shareholders should be boosters for the company and should be made to feel part of it. For this statement the company must rely mainly on the advice of those skilled in public relations work. Naturally there would be a certain amount of financial information, and it is hard to see much wrong with the conventional balance sheet and profit and loss account, in the simplified form followed recently by most public corporations. Many of the technical notes, however, would not be necessary if a detailed statistical summary were also issued and available for anyone wishing to value the shares. In statements for shareholders, of course, graphs and photographs and other decorative features should be exploited to the full.

Financial and Statistical Summary

The technical statement issued would be of at least equal importance. It would confine itself to as full a disclosure of the facts as possible. All questions of artwork would be irrelevant. There would be no need to assume that anyone had to be coaxed to read this statement.

The financial data would include those things which the analysts require in their work. Certainly it would be unnecessary to show abbreviated highlights since any good analyst would want to work out his own comparisons and do his own statistical work. Historical data could be included for long periods.

The Auditor's Part

It would obviously be important for the auditor to give an opinion on both financial statements. In other words, he would state whether in his opinion the financial data in the shareholders' statement was properly drawn up for the purpose it was designed to serve and he would also report whether in his opinion the information in the statistical summary was properly arrived at.

What is in fact suggested here is merely dividing up the material now included in financial reports so that an untrained person could get the sort of general picture of a company which he is able to understand and the trained person could get the basic data which he requires to study the company. In both reports there would of course be reading matter as well as figures – in each case suitably balanced for the purpose to be served – and both reports would be available to shareholders.

It may be objected that to issue two annual statements would be to get away from the all-purpose statements to which the profession has striven to adhere. It might be asked where such a trend would end, and whether we would ultimately ask a company to produce a special statement for shareholders, one for prospective investors, one for trade creditors, one for bankers, one for bondholders and so on. It is true that each of these groups has a different interest and would require somewhat dif-

ferent information, but this should not lead to a demand that a company issue a statement for each. All analysts, for whatever group they are working, require the same basic financial data. The detailed financial summary proposed above would provide for all of them, and the shareholders' statement would serve those seeking only a quick general picture.

Oscars

Of course there would be nothing wrong with giving two Oscars, one for each type of statement. And perhaps there is even room for a third Oscar – which would be awarded annually to the panel of judges who best performed the thankless task of picking the winning statements.

A LAYMAN'S GLOSSARY OF ACCOUNTING TERMS

Plant Burden.

Events Subsequent to Balance Sheet Date

WILLIAM M. WILSON

STATEMENTS SHOWING a financial position as of a given date and the results of operations to that date admittedly purport to deal only with what has happened; nevertheless, events may take place subsequent to the date of the balance sheet which alter the position or results of operations shown in the statements. When such events occur before the date of reporting on the statements, it has to be decided whether or not they are of sufficient importance to require disclosure in order that the statements may "exhibit a true and correct view of the state of affairs of the company and the results of its operations". There have been no official pronouncements and very little writing on this subject in Canada. Because of our close association with the U.S.A., however, it may be assumed that the recommendations contained in Bulletin No. 25, "Events Subsequent to the Date of Financial Statements", released by the American Institute of Accountants in October 1954, will be generally followed by Canadian accountants.

Bulletin No. 25 deserves careful consideration by those engaged in auditing and reporting on accounts and it may be helpful to review its highlights here.

Types of Events

Post balance sheet events which the auditor must consider can be classified in three general types. The first is those that directly affect the accounts and therefore call for adjustment of the figures in the financial statements under review. For example, current assets or current liabilities may be materially over- or understated in the light of subsequent information such as the bankruptcy of a major debtor, the collection of a large account considered doubtful at the balance sheet date or a contingent liability becoming an actual liability after the balance sheet date.

Events that do not affect the accounts directly but are an important consideration in the interpretation of the financial statements are the second type. This group comprises extraordinary or unusual transactions or happenings of material importance that have a significant effect on the financial position at the time they occur or on the future operations of the company and should, therefore, be brought to the attention of the reader of the financial statements. The sale or loss by fire of a major physical asset, long-term borrowing or a change in the capital structure of the company that took place after

the financial year end are examples of this type.

Finally, there are events of a non-accounting nature that, although perhaps of general interest, are not related directly or indirectly to the financial statements being presented. This category includes management changes, strikes, wars, etc., the effect of which it is almost impossible to evaluate. Such events, if important, are more or less generally known, in which case, in the opinion of the authors of Bulletin No. 25, they seldom require specific mention in the financial statements.

By and large, only events or transactions of the first and second type — those affecting the "presentation" or "interpretation" aspects of the financial statements — require disclosure. Events of a non-accounting nature and the actions and decisions of management in carrying out the ordinary operations of the business need not be disclosed as a rule. Furthermore, an event must be significant or of material importance before disclosure is necessary; trivial information must be excluded from the financial statements because it detracts attention from the important facts.

What is the basis of judging whether or not an event is significant or of material importance? There is no formula (except possibly the 15% rule prescribed by the Securities and Exchange Commission S-X for evaluating the significance of subsidiaries), but it should be borne in mind that both the amount or "quantity" and the nature or "quality" of the transaction or event must be considered. As a general guide, a post balance sheet event is significant or of material importance if the normal reader of the financial statements would react differently if the event were disclosed than if it were not. In the majority of cases, common sense will indicate what is important and what is not; borderline cases, however, must be examined critically and judged on the basis of knowledge and experience.

Audit Procedures

It is not considered necessary for the auditor to extend his usual audit procedures to the transactions of any specified period after the balance sheet date in order to form an opinion on the correctness of the financial statements with regard to the disclosure of post balance sheet events and transactions.

Some normal audit procedures assist the auditor in appraising the correctness of amounts shown in the financial statements that may be affected by happenings in the subsequent period. Examples of these procedures are:

(1) Examination of outstanding cheques and comparison with cash records.

(2) Examination of payments made after the year end.

(3) Examination based on a cash cut-off in the period after the year end.

(4) Follow-up of accounts receivable balances outstanding at the year end to establish collection or non-collection.

(5) Follow-up of contracts in progress at the year end.

(6) Examination of sales cut-off and returns of sales.

Certain other audit procedures should be extended into the period after the year end up to the date of completion of the examination. The

following are the main procedures of this kind:

(1) Discussions with the management of the company on the subject of unusual or extraordinary happenings in the period after the year end.

(2) Reading the minutes of directors' meetings held in the new year.

(3) Examination of contracts and agreements entered into in the period after the year end.

(4) Review of interim financial statements, prepared by the company, dealing with the period after the year end.

(5) Review of the major accounting records of transactions recorded in the new year.

(6) Re-examination of the market values of securities, material prices and foreign exchange rates in the period after the year end in cases where fluctuations therein could be of material importance.

These procedures may not be essential on some audits; on the other hand, alternative or additional procedures may be required in particular circumstances.

Contentious Questions

This responsibility on the part of the auditor for the disclosure of events and transactions of material importance after the date of the financial statements raises several contentious questions: What is the subsequent period? What date should appear on the auditor's report? What about the period between the completion of the audit work in the field and the signing of the auditor's report? Accountants seem to be generally in agreement that the subsequent period is the period between the balance sheet date and the date of the auditor's report. It is an event of material importance that occurred during this period that should be disclosed in the financial statements being reported on.

The question of dating the auditor's report seems to be still in the discussion stage as far as accountants in general are concerned. It is contended by some accountants that the date on the audit report should be the date that the audit field work was completed; others maintain that it should be the date the audit report was signed. Certainly, where there is an inordinate delay between the completion of the audit field and the signing of the audit report, it would seem to be expedient to visit the company's offices again to ascertain that no significant events have occurred or, where that is not practical, to discuss the situation with an official of the company.

Methods of Disclosure

The method of disclosure of a particular event or transaction obviously depends on the nature of the event or transaction. Items which directly affect the amounts shown in the financial statements, such as the valuation of accounts receivable, should be disclosed by correction of the amounts concerned. Those items, conversely, which cannot be given effect to in the financial statements, such as the sale of fixed assets or the acquisition of a subsidiary company, should be revealed by way of a note that is an integral part of the financial statements. As a rule, reference to an event of material importance in the directors' report to the shareholders alone does not constitute adequate disclosure. It goes without saying that the auditor

must take all the circumstances into consideration before deciding what is the proper method of disclosure in a particular case.

Where a note is required, it should be as brief as possible consistent with clarity and the full disclosure of all the relevant facts. Typical examples of post balance sheet disclosures appearing in published financial reports are included in the various editions of *Accounting Trends and Techniques* published by the American Institute of Accountants. For purposes of illustration, an example taken from the eighth edition of the publication referred to is reproduced here:

> "*Note 4*: On January 14 1954, the Company sold its investment in X Manufacturing Company of Canada, Limited, for $675,000. Since the cost of this investment, as carried on the books of the parent company, X Manufacturing Company, was $86,742, the profit on the sale of this stock amounted to $588,258 before capital gains tax thereon."

It is emphasized again that disclosures of insignificant or irrelevant events or unimportant details should be avoided. They may confuse the reader and can conceivably be misleading.

Concluding Remarks

Although the financial statements of a company, including the disclosure of post balance sheet events and transactions, are primarily the responsibility of management, the auditor must determine that they are correct. Frequently, moreover, the management of a company relies on the auditor in matters of correct presentation and adequate disclosure. There may also be instances where the management does not wish to reveal an event or transaction of material importance in the financial statements and the auditor, if he is unable to persuade the management to make adequate disclosure, must be prepared to qualify his report.

It seems obvious, then, that a careful review of the post balance sheet period and a critical examination of pertinent events and transactions is an essential part of any audit examination to enable the auditor to state that "a true and correct view of the state of affairs of the company and the results of its operations" has been presented.

Advertising Agency Operations and Control

D. W. TURNBULL

RELATIVELY FEW of the nearly 7,000 chartered accountants in Canada may be involved directly with advertising agencies by way of a professional assignment, but almost all are concerned with agency operation through their role as auditors of their clients' advertising expenditures.

Today, advertising agencies are "big business". In 1955, approximately 90 agencies in Canada spent close to $170,000,000 in national advertising for their clients. Yet they are a relatively modern development for, although advertising itself can be traced back to the use of Smith as a surname, it is only 67 years since Canada's first agency was established with a staff of three people.

In Canada, the emergence of advertising as a business paralleled the growth of her newspapers. In 1752, the country's first and only newspaper in existence, the Halifax *Gazette*, printed three small announcements. One of them – proposing the sale of butter by the ferkin – distinguished itself as the first product advertising known to be printed in Canada. The other two, inserted by a legal firm and a pair of tutors, offered services for a fee.

Thus the precedent of newspaper advertising had been established in Canada, but the population was small and scattered, and every penny was precious. Newspapers were often buried soon after their birth.

The introduction of steam-powered presses in 1850 permitted substantially lower production costs and ensured the survival of daily newspapers in Canada, and this, along with substantial improvements in transportation, enabled publishers to reach further afield for business. In 1878, the Toronto *Mail* sent a young man named Anson McKim to open a sales office in Montreal.

Origin of the Agency

That office was not long in business before it became apparent that the advertisers also wanted to use other Ontario newspapers, and they felt the simplest procedure was to place all their advertising through McKim. The young man obtained schedules of rates and circulation of all the Canadian newspapers and soon found himself, in practice if not by original intent, booking agent for many publications.

In 1885, Anson McKim's employers re-christened his office "The Mail Advertising Agency".

Coincidental with the new pattern in newspaper advertising came important changes in the marketing activities of manufacturers. Goods which had always been sold direct to consumers were placed with jobbers or wholesalers for distribution across the country; and manufacturers realized the need for national advertising.

In January 1889 Anson McKim took advantage of the situation by founding "The A. McKim Newspaper Advertising Agency", Canada's first independent agency. He purchased space in newspapers at wholesale rates and resold it to advertisers at retail rates.

Other agencies were soon established, and competition demanded that they expand their services to advertisers. Manufacturers were given advice in the effective use of advertising, and advertisements were written by the agencies.

This was the origin of the paradoxical relationship by which the advertising agency serves advertisers as its clients, although its income in the main comes from the advertising media rather than from the clients.

Advertising and the Economy

During the past 60 years the birth and steady development of the Canadian economy has been the envy of many leading nations of the world. Hungry eyes are turned on our high standard of living and national prosperity. Many attribute this success to our national resources, to our inventive genius and to the industry of our people, and to each is due a share of the credit. However, an increasing number of advanced thinkers in economics, social science and industry contend with much logic that what really makes this country great is the economic force of advertising, coupled with highly organized salesmanship. These two partners create and fill the desires that motivate people to buy in vast volume. In the final analysis, it is actual purchases rather than purchasing power (consumption rather than production) that create and sustain this mass production era which is contributing so substantially to our national and individual prosperity.

As creators of advertising, so vital to the national economy, it is natural that agencies have grown in number, size and stature. Today, they comprise teams of highly trained specialists, including creative artists and writers, research personnel, merchandising experts, radio, T.V. and film craftsmen, and general executives — men and women who through the years have learned a great deal about the things that motivate the buying habits of human beings.

The Functions of an Agency

This team obviously can perform widely varying services for a client, but the agency's main functions are dual: counsellor on advertising and merchandising matters, and agent.

A new client can reasonably expect the agency to have a working knowledge of his industry, but the agency needs much more. It requires detailed familiarity with the client's business, his philosophies, policies, objectives and marketing practices.

A study of the sales and merchandising fundamentals of the specific business is launched by agency management in conjunction with their marketing, research and creative personnel. This frequently involves field-trips to talk to salesmen and their customers, both present and potential.

When the evidence is complete, it is coordinated by an experienced advertising man called an account executive who is selected to handle the new client's activities. He and his colleagues produce an advertising plan for their new account.

The nature of the client's business determines the plan, of course, but a plan for a company with a nationally-distributed product could embrace: a) review of the overall business climate; b) economic study of the client's industry; c) analysis of the client's position in the industry, generally by marketing areas; d) analysis of advertising and merchandising activities of the client's competitors; e) definition of the advertising objectives, with reasons; f) detailed plan of action covering national advertising, selling aids for the sales force, and point-of-sale support; g) rough visuals to illustrate advertising ideas and advertising themes to be followed; h) recommended advertising budget necessary to achieve the objectives.

Once the client has accepted the advertising plan, the agency assumes its role as agent. But so far, it has been acting only as advertising and merchandising counsel.

It should be apparent that this operation will not be profitable for the agency in the initial stages of a new account. For this reason, and because the client must reveal his innermost trade secrets to the agency, the relationship between the two is rightly considered to be a marriage of lengthy duration. The courtship should be thorough enough to ensure that the union will be successfully formed on the basis of mutual understanding, respect and confidence.

This *affaire de coeur* may be fervent, but still it must be businesslike. The terms must be set out in writing, listing the services to be performed by the agency in return for the regular commission allowed by media and defining services subject to special charge, to be discussed and approved in advance.

Too few agencies put this understanding in writing, but to do so is only sound business.

Agency as Agent

Assuming its role as agent, the agency acts on behalf of the client through its various technical departments. Purchases are made at competitive prices and production supervised to assure quality of finished artwork, engravings, T.V. film commercials, radio scripts or printed advertising material.

Then the agency contracts for space or time in newspapers, magazines, radio, T.V., outdoor posters, streetcar cards, etc. The final advertisements are checked "as run" to assure that the space, time and quality were as ordered. This final check also supplies the evidence required before accounts can be paid and billed to clients.

The exact status of the agency in these operations must be made clear because it has an important bearing on its financial control.

Although an agency is acting for its clients, it becomes primarily liable itself when entering commitments for production, space or time. It follows that it must be sure that the credit ratings of its clients are sound, and must be constantly alert for changes in the credit situation.

Secondly, clients must be made to understand that agency invoices are

accounts from "an agent" to be paid within 10 days, and not normal 30-day trade accounts. The agency must be put in funds to meet the accounts of individual suppliers, publishers, talent, etc., which in many cases require payment within 15 days of billing. The agency should not be expected to finance clients' advertising, even for short periods of time. Past failures of many agencies can be traced to a lack of control in this respect.

Agency Income

Agencies may employ highly-paid specialists in all fields of advertising and merchandising whose services are continually available to clients substantially without charge, since the bulk of agency commissions are paid not by advertisers but by media.

Media, of course, have rate cards showing the price an advertiser pays when advertisements are placed directly. But when orders emanate from an advertising agency, the media bill this charge (called the gross rate) to the agency and indicate the commission allowable, usually 15% of the rate. The agency pays the media the net figure and bills the client for the gross.

This commission represents the agency's main source of income. In return, the agency generally contracts to:

(a) Study the client's market and recommend the best advertising vehicles to reach that market considering circulation, coverage by area and by class of reader (for publication); and for radio and T.V., audience and area covered by stations.

(b) Create visual ideas and copy themes to be used, recommending schedules of advertising with due regard for seasonal and other considerations.

(c) Contract with the media for space or time, and see that advertisements actually appear as ordered and are satisfactory in quality.

(d) Pay the media and bill the client, usually once a month.

(e) Supervise the entire advertising program.

(f) Create plans for merchandising and advertising at the point of sale.

The question of "standard" agency services has many ramifications, each with its own cost implications. It is only important to establish here that all services must be paid for if an agency is to be financially successful. Exacting control must be exercised to ensure that the agency actually does receive its commission on all standard assignments, and is reimbursed for all other services.

The monthly invoice an advertiser receives for standard agency services may look like an ordinary itemized account. But to the agency each item involves purchase orders, insertion orders or contracts, detail instructions, frequency rate checking, invoices from media and their payments, and subsequent billing to client.

Paper — Paper — Paper

It follows that the financial function within the agency must resolve itself into one of controlling literally thousands and thousands of pieces of paper. Each piece must be matched up. For every payment there must be a billing. Just one publication insertion paid to a publisher but missed in the billing to a client could result

in an agency loss of several thousand dollars.

The magnitude of the task of controlling the paper work becomes more apparent when we consider that a number of agencies in Canada are each placing from $5,000,000 to $27,800,000 a year of advertising for their clients.

Control must lie, first, in a sound system for handling and matching the paper and, secondly, in constantly balancing accounting operations.

Another important realm requiring control is that of agency services not covered by commissions from media. Many and varied, these include such items as preliminary and finished artwork, the writing of brochures and programs, the purchasing of printed promotional material, special research assignments and the technical production of T.V. commercials.

All these services involve supervision by the agency of production, quality and follow-through to delivery. However, many of them are performed by outside suppliers, and in these cases it is usual practice to add, when billing the client, an agency commission calculated to allow the agency 15% of the billing price to the client.

Many other services beyond supervision, such as special writing and art department assignments, research at client's request, travelling to and addressing sales meetings, etc., are performed by personnel of the agency staff. To ensure that the agency is properly reimbursed for them, individual time records and current hourly rates must be established. The natural desire of account executives to please their clients frequently leads them to undertake special services as favours. Agency management must be most alert about this because the economy of agency operations does not permit such luxuries.

Most agencies use a requisition system for instituting internal work and dockets to record costs. Therefore it is good practice to identify all dockets in which internal services are involved, and draw them to the attention of a senior agency executive for scrutiny and approval before billing.

Cash Discounts

Still another source of agency income is the cash discount, usually 2%, provided by some media to recognized agencies for settling their accounts within the discount term. Failure to retain this discount can make a serious inroad into agency profits. This is made evident by the Dominion Bureau of Statistics' composite statement of all reporting advertising agencies which showed net profit after taxes of less than 1% of billings to their clients in 1954.

Out-of-Pocket Expenses

Falling between the commissionable operations for clients and agency operating costs, there is a class of agency expenditures made for clients on a "net cost" billing basis. These expenditures are important because, while relatively small items individually, they are voluminous in number. In this category fall long-distance telephone charges, costs of telegrams, shipping, postage and other sundries.

With agency contacts being made from coast to coast, these expenditures can accumulate to sizeable proportions. A very rigid control must be established to ensure that they are passed on to the client, unless they have been incurred due to an omission on the agency's part. Net cost

items constitute an important source of profit leaks which must be stopped.

Control of Expenses

The control of agency operating expenses poses no unusual problem, since standard methods of budget controls and monthly reports apply, but there are some areas that deserve special mention.

Monthly operating statements should be prepared where personal service departments are involved, such as copy, art and research departments. These should be supported by subsidiary reports on the monthly productivity of individuals within such departments. An agency cannot afford a material amount of non-productive or idle time.

Since agency salaries consume almost 65% of all agency income, departmental salary controls should be maintained in terms of both dollars and number of bodies.

Extent of Services

The importance of ensuring that the agency has received all the income to which it is entitled has already been pointed out. It must be realized, however, that a substantial amount of income comes in the form of a fixed commission for which the agency provides its professional services. The value of services required by each client, varying greatly with the different nature of businesses, must be matched against the income received from the handling of the account.

Frequently, the services supplied by agencies in the U.S.A. are compared to those of agencies in Canada, but using American agency operations for comparison does not do justice to the agency situation in Canada. This point demands illustration:

If "X" agency in the United States creates and places a full-page, four-colour advertisement in a leading American magazine, the cost is such that the agency commission works out to approximately $4,500.

However, if "Y" agency in Canada develops and places a comparable advertisement in an equivalent leading Canadian magazine, the cost is such that the agency commission amounts to only about $450.

The difference in the costs of advertising in the two publications, of course, is that the U.S. magazine has about ten times greater circulation, with proportionately higher advertising rates. But that is no consolation to the agency in Canada which receives only one-tenth of the commission for a comparable job.

It follows that an American agency can give many gratis services which a Canadian agency cannot afford. Agencies are in business to make a profit, small as it is, and each account should contribute to this objective. Obviously, cost accounting must be an important factor in agency financial control to obtain a proper measure of profit.

It is fair to say that clients expect their agencies to make a reasonable profit on their account. If an account is not profitable, and the agency can substantiate its own internal efficiency, these facts should be placed before the client for a review of the services being given or for consideration of a compensating fee. Many clients have established such fee arrangements with their agencies

In the final analysis, every sound client wants a sound agency as a working partner, and an agency must be profitable to be sound.

A Look at Depreciation and Income Taxes

J. W. CROWE

To DATE most discussions in Canada comparing capital cost allowances and straight line depreciation have approached the problem solely from examples of single assets. On the bases of simple analyses of what happens in the case of one asset or investment, fairly broad and far reaching conclusions have been drawn. An implied assumption in these analyses and conclusions has usually been that what is true in the static case of one asset must also be true in the dynamic situation of a going concern with many assets. However it is worthwhile looking at the special problem of capital cost allowances and depreciation for a going concern. This can be done by advancing from the concept of one asset to that of many assets progressively being retired, replaced and probably being added to.

Single Asset Concept

Everyone is familiar with what normally happens in the example of a single plant undertaking commenced after the repeal of regulation 1100(4). Assuming a diminishing balance rate of 20% and a book straight line depreciation rate of 10%, capital cost allowances for the first three years exceed the straight line depreciation by about 19% of the cost of the asset or by about two years normal depreciation. In the fourth year the capital cost allowance and straight line depreciation are about equal. In the fifth, sixth, seventh and eighth years book depreciation will exceed capital cost allowances by almost as much as the excess of capital cost allowances in the first three years. It can therefore reasonably be argued that the reduction in taxes in the first three years of the life of this asset is not a real saving, but only a postponement of tax. The reduction, in effect, represents an interest free loan from the government and there is certainly merit in the recommendation of Bulletin No. 10 that such credits be deferred as "tax reductions applicable to future years".

Going Concern Maintaining its Investment

Now let us consider a multi-asset company which has been expending a constant sum annually, say $1,000,000, on construction for ten years prior to January 1, 1954. If we take 10% straight line depreciation, assets on hand at January 1, 1944 will be fully depreciated and gross fixed assets at January 1, 1954 will amount to

$10,000,000. Assuming that half a year's depreciation is charged on new assets in the year of acquisition, accumulated straight line depreciation at 10% will amount to $5,000,000 by January 1, 1954. We shall suppose that this company will continue to spend on construction an amount of $1,000,000 a year. Annual retirements will also amount to $1,000,000 a year, as will the straight line depreciation provision. Therefore the continued expenditure of $1,000,000 a year by this company in no sense represents an expansion program, but merely the maintaining of its fixed investment.

Table 1 and Chart 1 show the trend of straight line depreciation and capital cost allowance for the years following January 1, 1954. Straight line depreciation has been calculated at 10% and capital cost allowance at 20%. The example has taken the reserve for depreciation at January 1, 1954 to be equal to 50% of the gross fixed assets. Capital cost allowance will exceed book depreciation in 1954 and subsequent years by a geometrically declining rate. This annual excess will drop to zero in the long run, but book depreciation will *never* exceed the capital cost allowance unless the company starts to *decline*. By switching from straight line to diminishing balance depreciation for tax purposes this company has achieved a real and substantial savings. By inspection of Table 1 it can be seen that the total reduction in taxable income in this example is given by the sum of .2x annual

Table 1

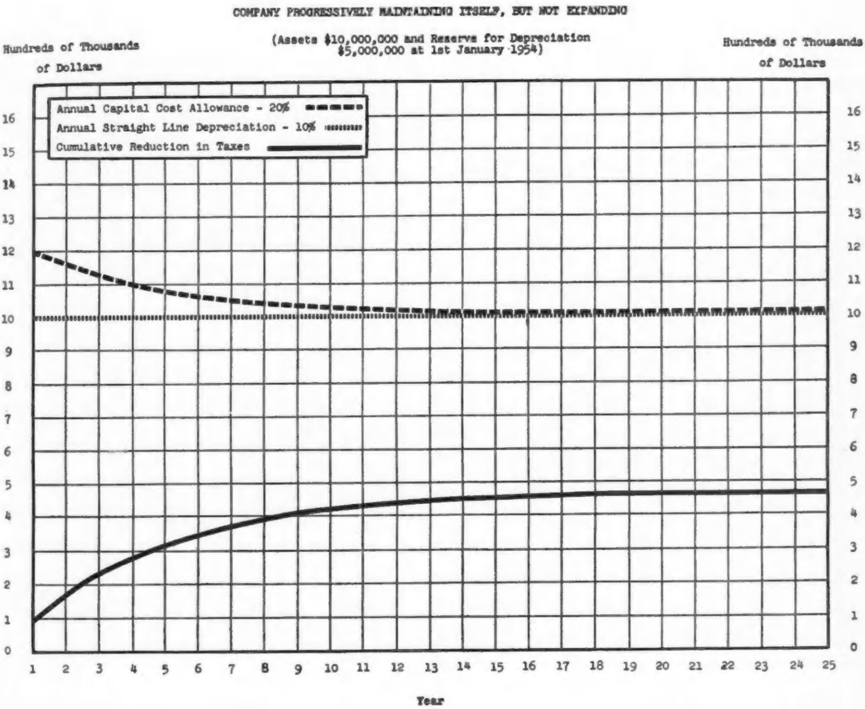
COMPANY PROGRESSIVELY MAINTAINING ITSELF, BUT NOT EXPANDING

(Assets $10,000,000 and Reserve for Depreciation $5,000,000 at 1st January 1954)

(*Amounts in Thousands*)

Year	Gross Construction Expenditures	Retirements	Straight Line Depreciation	Capital Cost Allowance	Reduction In Taxable Income	
					Annual	Cumulative
			10%	20%		
1	$1,000	$1,000	$1,000	$1,200	$200	$200
2	1,000	1,000	1,000	1,160	160	360
3	1,000	1,000	1,000	1,128	128	488
4	1,000	1,000	1,000	1,102	102	590
5	1,000	1,000	1,000	1,082	82	672
6	1,000	1,000	1,000	1,066	66	738
7	1,000	1,000	1,000	1,052	52	790
8	1,000	1,000	1,000	1,042	42	832
9	1,000	1,000	1,000	1,034	34	866
10	1,000	1,000	1,000	1,027	27	893
11	1,000	1,000	1,000	1,021	21	914
12	1,000	1,000	1,000	1,017	17	931
13	1,000	1,000	1,000	1,014	14	945
14	1,000	1,000	1,000	1,011	11	956
15	1,000	1,000	1,000	1,009	9	965
Long Run			1,000	1,000	nil	1,000

CHART 1



construction + .2x.8x annual construction + $.2x.8^2x$ annual construction + $.2x.8^3x$ annual construction to infinity. The sum to infinity of $.2(1 + .8 + .8^2 + .8^3 + \ldots)$ is 1. Therefore the total reduction in taxable income achieved by this company is one year's construction expenditures or $1,000,000. Most of this savings is realized in the early years after the switch to diminishing balance. Things do not "come out in the wash" and savings are continually increased although in smaller and smaller amounts.

It may be objected that $1,000,000 a year is too high an expenditure on construction merely to maintain at an even keel $10,000,000 of fixed assets. In this event 10% straight line depreciation is also too high. Let us assume that $200,000 a year is all that is required to replace the retirements of this company. Then straight line depreciation should normally be 2% per annum. If we take capital cost allowance of 4%, the long term reduction in taxable income after January 1, 1954 will still be equal to one year's construction expenditures (in this case $200,000).

If the reserve for depreciation at January 1, 1954 were less than 50% of total fixed assets, the base for capital cost allowances would be that much higher. The long term reduction in

taxable income through using diminishing balance depreciation would therefore be greater than one year's construction expenditures by a similar amount. If the base for capital cost allowance at the time of switch was below 50% of total assets the permanent tax savings would be less. If the base was proportionately low enough a permanent tax loss could be occasioned by the change from straight line to diminishing balance depreciation.

For a going concern, which is on the average just managing to hold its own, it would appear that an appreciable and real tax savings would probably be realized through the introduction of the diminishing balance method for tax purposes. If accumulated depreciation was unusually high in relation to fixed assets, however, a permanent tax loss might be suffered. In any case there appears to be no justification for the widely held belief that any early difference be-

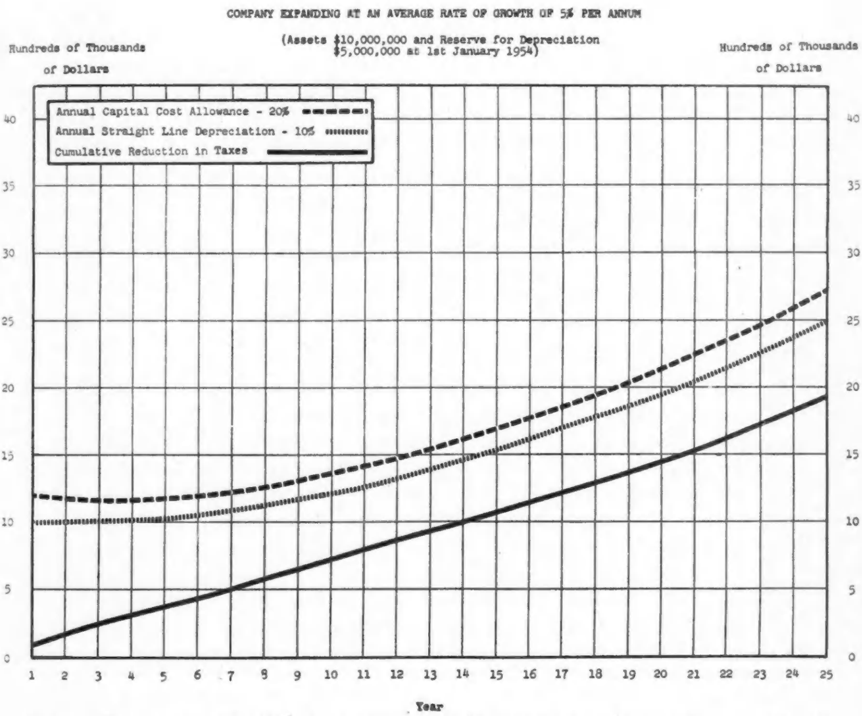
Table 2

COMPANY EXPANDING AT AN AVERAGE RATE OF GROWTH OF 5% PER ANNUM

(Assets $10,000,000 and Reserve For Depreciation $5,000,000 at 1st January 1954)
(*Amounts in Thousands*)

Year	*Fixed Assets Start of Year*	*Gross Construction Expenditures*	*Retirements*	*Annual Straight Line Depreciation*	*Annual Capital Cost Allowance*	*Reduction In Taxable Income*	
						Annual	*Cumulative*
				10%	20%		
1	$10,000	$1,000	$1,000	$1,000	$1,200	$200	$200
2	10,000	1,050	1,000	1,000	1,171	171	371
3	10,050	1,103	1,000	1,005	1,157	152	523
4	10,153	1,158	1,000	1,015	1,157	142	665
5	10,311	1,216	1,000	1,031	1,168	137	802
6	10,527	1,276	1,000	1,053	1,190	137	939
7	10,803	1,340	1,000	1,080	1,220	140	1,079
8	11,143	1,407	1,000	1,114	1,257	143	1,222
9	11,550	1,477	1,000	1,155	1,303	148	1,370
10	12,027	1,551	1,000	1,203	1,352	149	1,519
11	12,578	1,629	1,000	1,258	1,407	149	1,668
12	13,207	1,710	1,050	1,321	1,468	147	1,815
13	13,867	1,796	1,103	1,387	1,534	147	1,962
14	14,560	1,886	1,158	1,456	1,605	149	2,111
15	15,288	1,980	1,216	1,529	1,679	150	2,261
16	16,052	2,070	1,276	1,605	1,758	153	2,414
17	16,855	2,183	1,340	1,686	1,843	157	2,571
18	17,698	2,292	1,407	1,770	1,933	163	2,734
19	18,583	2,407	1,477	1,858	2,027	169	2,903
20	19,513	2,527	1,551	1,951	2,128	177	3,080
21	20,489	2,653	1,629	2,049	2,232	183	3,263
22	21,513	2,786	1,710	2,151	2,343	192	3,455
23	22,589	2,925	1,796	2,259	2,460	201	3,656
24	23,718	3,071	1,886	2,372	2,582	210	3,866
25	24,903	3,225	1,980	2,490	2,710	220	4,086

CHART 2



tween the two methods of accounting will be offset in later years by a corresponding difference the other way.

This is the picture for a non-expanding concern. Let us now consider a company that is expanding.

Expanding Concern

We shall now suppose that the company discussed above, instead of remaining at an even keel, commences to grow. For the sake of simplicity it has been assumed that gross construction expenditures are increasing at an average rate of 5% per year. This seems to be a moderate rate of expansion in an economy such as Canada's. This is particularly apparent when it is recognized that continued gradual inflation has precisely the same effect for purposes of this problem as a rate of real growth. Furthermore in the example used (Table 2) an expansion of 5% in annual construction expenditures produces an average growth of only 2½% of fixed investment for the first ten years.

Table 2 and Chart 2 show the trends of capital cost allowance, book depreciation and consequent reductions in taxable income for such a company. Fixed assets and the reserve for depreciation at January 1, 1954 have again been taken to be $10,000,000 and $5,000,000, respect-

ively. It has been assumed that book depreciation will normally be first charged in the year after the acquisition of an asset. By the end of the fifth year taxable income will have been reduced by a total of \$800,000; by the tenth year by \$1,500,000; and by the fifteenth year by an accumulated amount of \$2,300,000. The "Accumulated Tax Reduction Applicable to Future Years" would be reaching a high level indeed for such a small company. Furthermore there is no tendency for this large tax saving ever to become payable to the government.

Capital cost allowance at 20% exceeds straight line depreciation at 10% every year and, as long as the expansion continues, will never be equal to, let alone less than, book depreciation. In fact the annual capital cost allowance tends to become equal to 84% of annual construction expenditures, while the straight line depreciation quickly becomes equivalent to 77% of construction expenditures. Both systems of depreciation tend to remain at this level as long as the average rate of expansion continues. The annual reduction in taxable income will therefore tend on the average to be 7% of annual construction expenditures, i.e. an *increasing* dollar amount.

Long Run Aspects of the Problem

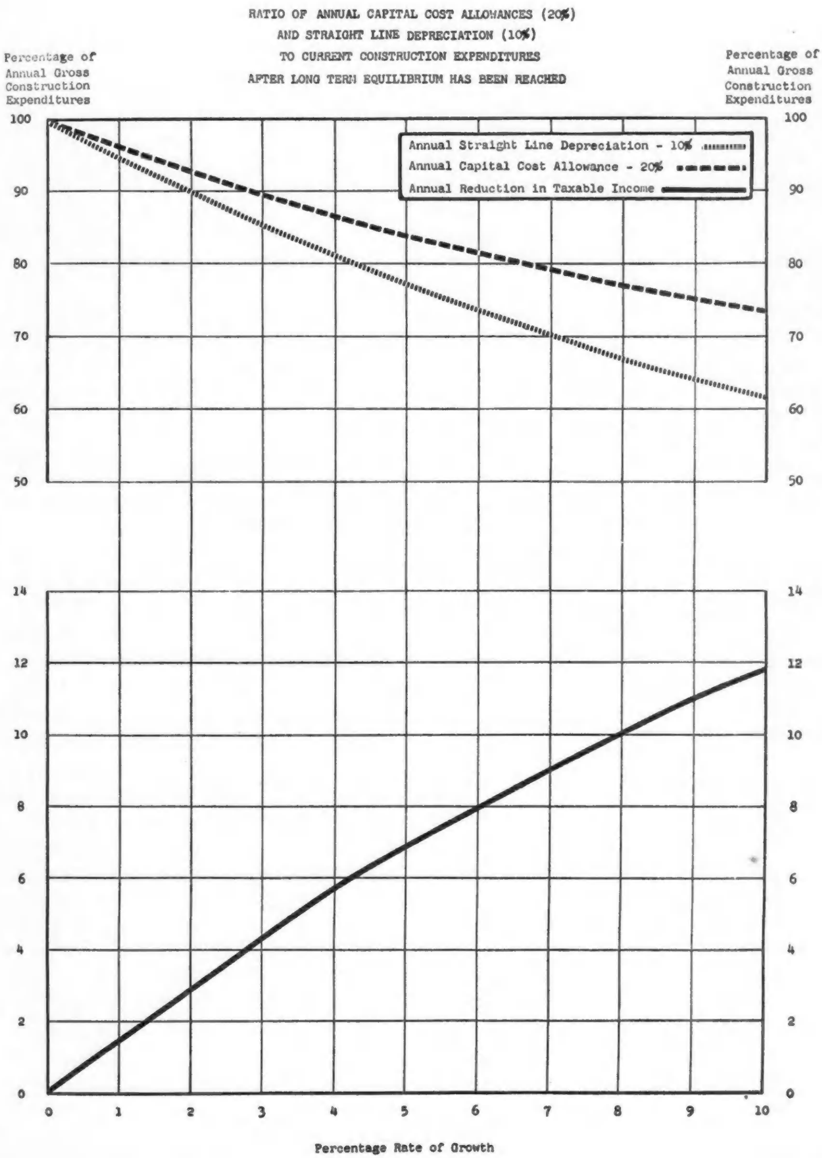
As indicated in the example above capital cost allowances at 20%, straight line depreciation at 10% and annual reductions in taxable income tend to settle out at about 84%, 77% and 7%, respectively, of annual construction expenditures. These percentages represent the longer term equilibrium for a 5% rate of expansion. Similarly any consistent system of depreciation, whether straight line, diminishing balance or sum of the years digits, etc., tends sooner or later to approximate a constant percentage of annual construction expenditures depending on the rate of growth of the company and the rate of depreciation. Table 3 and Chart

Table 3

RATIO OF ANNUAL CAPITAL COST ALLOWANCES (20%) AND STRAIGHT LINE DEPRECIATION (10%) TO CURRENT CONSTRUCTION EXPENDITURES AFTER LONG TERM EQUILIBRIUM HAS BEEN REACHED

	Percentage of Annual Gross Construction Expenditures		
Rate of Growth	*Annual Capital Cost Allowances*	*Annual Straight Line Depreciation*	*Annual Reduction In Taxable Income*
nil	100%	100%	nil
1%	96.2	94.7	1.5%
2	92.7	89.9	2.8
3	89.6	85.4	4.2
4	86.7	81.0	5.7
5	84.0	77.2	6.8
6	81.5	73.6	7.9
7	79.3	70.3	9.0
8	77.1	67.1	10.0
9	75.2	64.2	11.0
10	73.3	61.5	11.8

CHART 3


RATIO OF ANNUAL CAPITAL COST ALLOWANCES (20%)
AND STRAIGHT LINE DEPRECIATION (10%)
TO CURRENT CONSTRUCTION EXPENDITURES
AFTER LONG TERM EQUILIBRIUM HAS BEEN REACHED
Percentage of Annual Gross Construction Expenditures
Percentage of Annual Gross Construction Expenditures
Annual Straight Line Depreciation - 10%
Annual Capital Cost Allowance - 20%
Annual Reduction in Taxable Income
100
90
80
70
60
50
14
12
10
8
6
4
2
0
0
1
2
3
4
5
6
7
8
9
10
Percentage Rate of Growth

3 show the long run equilibrium rates for diminishing balance (20%) and straight line depreciation (10%) with rates of expansion varying from nil to 10%. Only with a nil rate of expansion is there any tendency for annual capital cost allowance and book depreciation ever to become equal. Yet even with a nil expansion there is normally no tendency for initial tax savings to be lost unless there is an actual *decline* in a company. With any positive rate of expansion not even the *annual* tax saving, let alone the cumulative saving, ever approaches zero even in the long run. In fact with a rate of expansion of 8%, about the historical rate of growth in the chemical industry, the long run annual reduction in taxable income through using capital cost allowance (20%), instead of straight line (10%), approaches 10% of annual construction expenditures. This is indeed a substantial reduction when applied to ever increasing annual expenditures. Furthermore in almost any conceivable example the short term annual savings is relatively more.

Fluctuations in Construction Expenditures

It may be objected that the preceding analyses proceed on the basis of an even flow of construction expenditures, while in practice construction may be highly spasmodic. This, of course, is true. If over a period of time, however, a company has achieved an average rate of growth in fixed investment, it will normally also have obtained a real and substantial reduction in taxes from the excess of capital cost allowances over depreciation, regardless of how irregular construction expenditures may have been. Irregularity of construction expenditures causes the tax savings to vary sharply from year to year but does not tend to diminish the sum of such savings.

It would seem probable that the real accounting problem is not whether or not to reserve the entire annual reductions in taxes through using the diminishing balance system. Most, if not all, of these reductions normally represent real savings. The problem may be to do something about the sharp annual fluctuations in income flowing from irregular construction expenditures. This is particularly so since major savings may be realized under the Income Tax Act before a new project has actually come into operation.

One approach to this problem would be as follows. Let us suppose that in a given year a company has expended $15,000,000 on construction as opposed to an expenditure level of $10,000,000 indicated by the company's normal growth pattern. There is no sense in reserving the entire tax savings since this company can probably expect to save appreciable sums every year through using diminishing balance depreciation. There will, however, be an excess saving in this year because of the extraordinarily high construction expenditure. If book depreciation is normally first charged in the year after acquisition this excess tax savings will be equivalent to 47% of 20% of the excess of actual construction expenditures over the company's normal long term pattern. In this case, therefore, there would be some argument in reserving, say, 10% of $5,000,000 or $500,000. Let us assume that next year construction expenditures are $3,000,000 below the company's usual pattern, then the reserve could be brought back into in-

come in the amount of 10% of $3,000,000 or $300,000. This scheme would largely eliminate sharp variances in income caused by the new regulations and would not fall into the trap of a reserve growing to almost fantastic heights. It would also not make the error of seriously understating long term real income. The determination of a conservative growth pattern having regard to past performance and future prospects should not be beyond the capacities of a company's financial officers.

What about the second year and subsequent effects of a major excess in normal capital expenditures? Diminishing balance depreciation in the second year will be down to 80% of 20% or 16% of the original excess. Book depreciation will normally have commenced at say 10%. Therefore the excess between the two systems will be 6% and the tax savings less than 3%. For a normal company this can probably be regarded as a fairly small distortion of income having regard to the extraordinary costs usual in the first year of operation of any major new construction. It is, therefore, suggested, that any distortion of income from a major construction expenditure, in excess of a company's normal pattern, will normally present a significant accounting problem in the year of expenditure only.

While it is recognized that other and more scientific answers will undoubtedly be forthcoming, the above is advanced as one approach to this interesting problem.

Summary

By the introduction of the diminishing balance depreciation system (at double the former straight line rates) the income tax authorities in effect gave business a sizable and continuing reduction in taxes. Diminishing balance depreciation at 20%, for example, will normally provide a higher annual charge against profits in both the short run and the long run than straight line depreciation at 10% for any company with a positive rate of expansion. Even where there is no expansion the initial savings usually coincident with the diminishing balance system will normally never be lost unless a company goes into a prolonged decline. In this case the company would probably be running into losses and would still escape repaying the initial savings. Moreover, we can probably follow George O. May's dictum that it is no part of the accounting for a going concern to provide for the winding-up of the company.

Savings accruing from the diminishing balance system unfortunately will probably not come to companies in any even flow, but will vary directly and violently with sharp fluctuations in gross construction expenditures. Where this distortion of income becomes a significant problem, however, it would not appear to be beyond the ingenuity of accountants to develop an answer.

Retirement Schemes for the Self-Employed And Revenue Costs

The Canadian Tax Foundation recently made a careful examination of the calculated revenue loss which would result if the self-employed in this country were granted the same treatment for retirement savings as is now given members of pension plans. This study was published in the May-June issue of the Canadian Tax Journal and is reprinted here with the permission of the Canadian Tax Foundation.

ONE OF the missing pieces in the discussion of proposals for granting the self-employed the same treatment for retirement savings as is now given members of pension plans has been the amount of revenue loss that would result. Undoubtedly this has been an important factor in government thinking in Canada, but as yet no specific calculations have been put forward. In both the United States and Great Britain such estimates have been available for some time; in the present article we attempt to provide calculations of the same sort for Canada. These have particular interest in view of the announcement in the recent British budget that a plan will be introduced there immediately, in spite of revenue costs estimated to run between £30 and £50 million.

As a basis of comparability with the treatment granted under pension plans we assume four different sets of calculations ranging from least generous to most generous. We also show costs for a wide range of individual classes of self-employed, so that the data given in the accompanying tables can be adapted to various assumptions and classifications.

The four sets of assumptions regarding deductions – percentage of income and dollar maximum on deduction – were: (1) 6% of income or $1,500; (2) 12% of income or $3,000; (3) 15% of income or $3,000; and (4) 30% of income or $6,000. The 6% of income or $1,500 represents an approximation of the limits curently approved as employee's contributions for current and future service. Very few plans provide for this rate of contribution, and the most common rate is 5%. The 12% or $3,000 includes not only the employee's contribution as outlined above but a like amount as the employer's contribution for current and future service. The 15% or $3,000 is designed to provide for the employee's contribution for past service as well as current and future service. It combines the limit of $3,000 provided in the Act and the 15% maximum contribution for future service, approval of which will be granted if specific conditions are fulfilled. The 15% maximum will generally be approved if: (1) additional contributions for past service are not provided for in the plan; (2) the basic rate is not in excess of 6%; and

(3) the excess over the basic rate is in accordance with a formula that relates the number of years of service to normal retirement age to the basic rate. Approval of a 15% rate of contribution for future service precludes any additional contribution for past service, and therefore the maximum amount which may be contributed in any one year under this arrangement is limited to $1,500. As in the previous case, the 30% or $6,000 provides for past and current and future service contributions of both the employee and the employer.

If all the self-employed and similar classes of taxpayers were to deduct the full amounts under the various arrangements from income and if the number of such taxpayers and the level of incomes had not changed since 1953, the figures in Table I would provide a reasonable estimate of the revenue loss. Under these conditions the revenue loss would approximate $29.5 million if the smaller of 6% of income or $1,500 were deducted, $58.3 million if the smaller of 12% or $3,000 were deducted, $65 million if the smaller of 15% or $3,000 were deducted, and $126.6 million if the smaller of 30% or $6,000 were deducted. Similarly the distribution among the various occupational classes of taxpayers under the first example, would be as follows: business proprietors, $12.2 million; persons with predominantly investment income, $6.7 million; professionals, $5.0 million; primary producers, $3.3 million; and salesmen, $2.3 million. However, such is not the case, and each of the following fundamental departures from the assumptions requires an offsetting adjustment: (1) a small number of taxpayers in the listed occupational classes are considered employees for purposes of pension contributions and as such should be excluded; (2) the number of self-employed taxpayers has undoubtedly increased since 1953 and these should be included; (3) the level of income has increased since 1953 and a compensating adjustment for this should be made; and (4) all of the self-employed would not be likely to avail themselves of the full arrangements and the estimate of revenue loss would have to be reduced.

Although most contributors to approved pensions plans are classified as employees in *Taxation Statistics* (the source of the basic data from which the table worksheets were prepared) a relatively small number fall in such occupational classes as primary producers, professionals, business proprietors and salesmen. The precise number is not available, but a rough estimate can be made based on average incomes, the total of pension contributions and an assumed rate of contribution. Assuming a 6% rate of contribution to approved plans the number of taxpayers classified as self-employed approximates 4.5% of the total; assuming a 5% rate, about 5.4% of the total; and assuming a 4% rate, around 6.7% of the total. The exclusion of the above contributors would therefore require a downward adjustment of about 5% to the figures contained in Table I.

During the past three years for which data are available (1950 to 1953) the number of self-employed taxpayers has been increasing at a slightly lower rate than the total number of taxpayers. The working force for the current year will probably be about 5% greater than it was in 1953 and therefore it may be taken that the number of taxpayers for the current year will be at least 5% greater than in 1953. An upward adjustment

Table I

SELF EMPLOYED

ESTIMATED INCOME TAX REVENUE LOSS FROM THE DEDUCTION OF SPECIFIED AMOUNTS OF INCOME[1]

(Based on 1956 rates and the 1953 level and distribution of Canadian income)

(Millions of Dollars)

Occupation	*The smaller of 6% of income or $1,500*	*The smaller of 12% of income or $3,000*	*The smaller of 15% of income or $3,000*	*The smaller of 30% of income or $6,000*
Farmers	3.0	6.0	7.4	14.4
Forestry Operators	.1	.2	.2	.5
Fishermen	.1	.3	.4	.7
Total Primary Producers[1]	3.3	6.5	8.1	15.6
Accountants	.4	.7	.8	1.6
Medical Doctors and Surgeons	2.2	4.5	5.0	9.8
Dentists	.5	1.0	1.2	2.3
Lawyers and Notaries	1.0	2.0	2.1	4.2
Consulting Engineers and Architects	.4	.8	.9	1.7
Entertainers	.1	.2	.3	.6
Osteopaths, Chiropractors, Etc.	.1	.2	.3	.5
Nurses	.1	.1	.2	.3
Other Professionals	.2	.3	.3	.7
Total Professionals[2]	5.0	9.9	11.2	21.8
Salesmen	2.3	4.6	5.6	10.8
Business Proprietors	12.2	24.1	27.8	54.1
Persons with Predominantly Investment Income	6.7	13.1	12.3	24.2
Total[2]	29.5	58.3	65.0	126.6

[1] This Table and Table II are essentially worksheets from which specific estimates of revenue costs can be determined according to the various assumptions made. The estimates are the maximum possible amount of revenue loss, since they assume that every eligible taxpayer makes the maximum contribution.

[2] Does not necessarily add owing to rounding off of figures.

approximating 5% will have to be made to the revenue figures to account for the increase in the number of self-employed taxpayers.

The level of income has risen considerably since 1953, but it is difficult to determine from available data the magnitude of the increase as it affects the self-employed. For example the income of business proprietors is influenced considerably by business profits and it is subject to sharper fluctuations than most other forms of current income. For most taxpayers a 10% increase in income results in a 10% increase in the amount that may be deducted from income and a slightly greater than 10% increase in the revenue loss from such a scheme owing to the increment of allowable deduction being subject to the top marginal rate applicable to each individual. For those taxpayers that are limited by the specific dollar amounts,

an increase in income will not result in any additional amount deducted from income. Less than 15% of the estimated revenue loss arises from taxpayers subject to the flat dollar amounts, and therefore a 10% increase in income on balance would result in an added revenue cost of about 10%.

It is unlikely that all self-employed taxpayers would avail themselves of the total deduction permitted under such a scheme. Many attractive alternatives for the funds would exist, but it is difficult, if not impossible, to assess the extent to which the self-employed would forego the immediate tax savings for these alternative forms of investments. Assuming that self-employed taxpayers would set aside 50% of the amounts allowed under such arrangements, that the number of new taxpayers would offset the present number of contributors (classified as self-employed) to approved plans, and that on balance the incomes of the self-employed have increased by 10%, the estimated revenue loss from such a scheme would approximate 55% of the figures included in Table I. On these assumptions a deduction of the smaller of 6% of income or $1,500 would cost an estimated $16.2 million; 12% of income or $3,000, $32 million; 15% of income or $3,000, $38.5 million; and 30% of income or $6,000, $69.6 million. Similarly the distribution of the revenue loss among the occupational classes (assuming limits of 6% or $1,500) is as follows: business proprietors, $6.7 million; persons with predominantly investment income, $3.7 million; professionals, $2.8 million; primary producers, $1.8 million; and salesmen, $1.3 million. For most purposes interpolation would provide adequate results for intermediate rates of contribution.

Provisions similar to those at present granted to employees contributing to approved pension plans could be designed to include within their ambit any general class of taxpayers. Nevertheless the present study would not be complete without an estimate of the revenue loss of extending similar arrangements to all employees who do not qualify under the present provisions. The information for such an estimation is provided in Table II. On the assumption that the overall rate of contribution to approved plans is 5%, the revenue loss based on 1953 data would range from an estimated $74 million to $351 million depending upon the rates of deduction. On the assumption that the overall rate of contribution is lower, the estimate of the number of taxpayers presently contributing must be increased thereby lowering the estimate of the revenue loss. As for the self-employed the data must be adjusted for the present number of taxpayers, for the change in the number of contributors to approved plans relative to the total number of taxpayers for the current level of income and for an estimation of the extent to which the employees will avail themselves of the arrangements.

The estimated figures include the revenue loss to the old age security fund as well as to budgetary revenues. The amount attributable to old age security revenue is about 1/20 for the self-employed and about 1/10 for employees.

Many variations in the basic assumptions can be made. For example, the 6% of income could have been defined as 6% of earned income, an amount somewhat closer to wages and salaries that form the basic measure for employees. Although earned in-

come by income classes for each occupational group is not available, some indication of the significance of this factor is indicated by the following. Investment income for 1953 (excluding rental income now defined as earned income) accounted for the following percentages of total income: primary producers, 3.3%; professionals, 4.6%; salesmen, 2.2%; business proprietors, 4.6%; persons with predominantly investment income, 78.6%; and employees, 1.0%. These figures suggest that there would be a nominal saving in revenue from limitation of the deduction to a proportion of earned income rather than total income.

Finally it should be mentioned that the foregoing calculations all relate only to the *immediate* loss of revenue that would arise. The retirement benefits would themselves be subject to income tax on ultimate return to the taxpayer, and there would be some recovery of revenue in later years. Although a precise measure of the amount cannot be made, one approach is outlined. The future stream of income arising from the retirement benefits will be larger in absolute terms than contributions made because of interest accumulations, but the present value of the stream will be equivalent to the current amount set aside if the future stream is discounted by the same rate of interest as the amounts set aside would earn. Therefore, if the retirement benefits ultimately become subject to the same rate of tax that would have applied to the amounts set aside, there will not be any long-term loss in revenue. Similarly if the retirement benefits never become subject to tax, the loss in revenue will be the full amounts as determined from the tables. Perhaps some intermediate position will develop. For example, if the retirement benefits become subject on the balance to a 5% rate of tax, and if the amount set aside would have been subject on balance to a 30% rate of tax, the ultimate recovery could be considered 1/6 of the revenue loss.

Table II

EMPLOYEES

ESTIMATED INCOME TAX REVENUE LOSS FROM THE DEDUCTION OF SPECIFIED AMOUNTS FROM INCOME[1]

(Based on 1956 rates and the 1953 level and distribution of Canadian income)

(*Millions of Dollars*)

Employees[2]	*The smaller of 6% of income or $1,500*	*The smaller of 12% of income or $3,000*	*The smaller of 15% of income or $3,000*	*The smaller of 30% of income or $6,000*
All	100.1	198.3	243.3	474.8
All except contributors to pension plans—				
estimate based on 6%	78.4	155.2	190.5	371.7
5%	74.0	146.6	179.9	351.1
4%	67.5	133.7	164.1	320.2
3%	56.6	112.2	137.6	268.6

[1] See note [1] under Table I.

[2] The estimated number of contributors to pension plans was based on average income level, total amount of pension contributions, and specified rates of contribution.

BY GERTRUDE MULCAHY B.A., C.A

Accounting Research

The C.I.C.A. Research Department

History of Holding Companies and Consolidated Financial Statements

"Consolidated statements do not exist in a social or economic vacuum. They were developed to fulfil a real need arising out of specific historical conditions; they are reflections on the accounting level of the distinctive pattern assumed in this country by the combination movement."[1]

The history of the development of the use of the consolidated statements parallels the history of the development of the holding company from the simpler forms of business enterprise. As early as the Roman era, the corporate form of business enterprise was known, but the notion of its personality was not fully developed. In mediaeval times, municipal and ecclesiastical corporations were common in Norman England and on the Continent.

The overseas trade expansions of the 16th and 17th centuries brought about a form of business undertaking whereby associates bought shares in a ship and divided its profits. The Muscovy Company (chartered in 1555) and the Dutch East India Company (chartered in 1602) were perhaps the earliest trading companies with what later came to be called a permanent capital. Partial government subsidization of trading companies was usual but gave way in the 18th century to the protective device of limited liability. The failure of the Mississippi Scheme (1720) and the bursting of the South Sea Bubble in England led to stringent fiscal regulations of business corporations, especially in the matter of capital.

The enormous expansion and changes in industrial techniques introduced during the Industrial Revolution (1750-1850) provided perhaps the greatest stimulus to the development of the corporate form of business enterprise. With the introduction of steam power driven machines in the factories and railways, many new limited companies were formed in Britain to finance larger economic units formerly controlled by small family groups.

The holding company emerged from this trend as a result of the efforts to combine groups of corporations for purposes of economy and control. This form of control of one or more companies through ownership of the majority of the shares of their voting stock first appeared in the textile industries and quickly spread through much of Britain's industrial life. Since 1869 at least, an English corporation could hold shares of another, unless specifically forbidden by its charter or articles of association.

The trend towards combining business undertakings spread from England across the Atlantic to the United States. From the late 1880's to the

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[1] Maurice Moonitz, "The Entity Theory of Consolidated Statements".

depression of 1903, there was a rapid increase, in number and size, of industrial combinations. However, in the earlier years of this period, the form was somewhat different from the pattern of consolidation set in Britain. For the most part, these combinations were in the trust form of organization in which a board of trustees assumed ownership of the corporate shares of numerous small competing firms. Prior to 1893, the holding company was practically unknown in American financial history, although a few special charters had been granted in Pennsylvania which provided, among other things, the right to acquire and hold stocks of other corporations.

Up to the 1880's and 1890's, the United States federal government's national economic policy had been dominated by the theory of *laissez-faire*. Therefore, without legal control and restrictions, giant trusts and monopolies developed unhindered and rapidly began to stifle competition and to limit opportunities for small business men and other groups. As a result of popular agitation against the trusts, the federal government was forced to step in and to regulate certain business practices. In 1890, Congress passed the Sherman Anti-Trust Act, which, in effect, outlawed the use of trustee method of control. However, in 1893, New Jersey amended its corporation law, originally adopted in 1888, to provide a legal means of accomplishing the result prohibited by the Sherman Act. Corporations chartered in New Jersey were permitted to hold stocks of other corporations. The general pattern of consolidations set in Britain was adapted by American financiers and industrialists, and thereafter most of the industrial combinations were organized as holding companies. Ultimately, other States passed legislation to permit, and often to encourage, this form of combination. Unfortunately, the moving spirit behind these early holding companies was identical to that of the trusts: monopolistic control. It was merely a change in form while the substance behind the form remained intact. This shift from business trust and voting trust to the holding company did, however, bring the combination out into the open.

By 1901, the movement towards large industrial combinations had reached its climax and ceased almost entirely in 1903. By this time, it was apparent that, as a whole, the trusts had not been too successful in meeting the expectations of their promoters. The financial scandals, dishonesty and fraud accompanying many of their failures added further to the doubts as to the economic expediency and financial wisdom of industrial combinations. In addition, the Supreme Court decision in 1904 in the *Northern Securities* case finally established that without any doubt, the holding companies were subject to the anti-monopoly legislations and that consolidations were not to be legalized by mere verbal subterfuge.

During the period from 1902 to the beginning of World War I, the number of new industrial combinations was insignificant compared with the period of 15 years preceding the Depression of 1903. In 1914, the Clayton Act was passed as an amendment to the Sherman Anti-Trust Act of 1890 to increase its effectiveness. A number of unfair business practices which would tend to reduce competition were forbidden and stockholdings, the effect of which would be "substantially to lessen competition or

tend to create a monopoly", were specifically prohibited. Since the passing of the Clayton Act, the holding company has been used primarily as a method of combining business enterprises which are largely non-competing. Due to the increased demand for manufactured products, the rapidly rising prices and the loosening of restrictions on monopoly, which developed during World War I, a new movement towards combining industrial undertakings began in 1915. These later combinations were based upon the principles of efficiency of operations rather than upon the suppression of competition.

Numerous combinations, many of which were on a comparatively small scale, occurred during the 1920's, among automobile manufacturers, power companies, banking firms, food producers, motion picture makers and other businesses, but industrial consolidation was not an outstanding feature of the rising tide of business activity that culminated in 1929.

During the Depression years of the 1930's there was very little new development in the combination movement. Financiers and industrialists were too much occupied with salvaging the businesses already in existence to be concerned with promoting expansion. And in the war years and post-war years of the 1940's there was an attitude that the period of adjustment, which must inevitably follow war, would be difficult enough for individual businesses without adding further complications of large scale combinations and consolidations. However, from 1940 to 1950, the number and importance of the utility holding companies declined, whereas all other forms of holding companies increased in number and importance.

Most of the large industrial corporations, with which we are familiar today, are operating holding companies. Under this form of combination, a company can operate its own enterprise and at the same time, by the corporate ownership of controlling shares, manage the allied corporation through a board of directors of their own choosing. The 1955 edition of "Accounting Trends and Techniques" prepared by the American Institute of Accountants shows that in 1954, 81.4% of the 600 companies included in their annual survey had subsidiary companies. Over the years, the holding company form of combination has been established as an integral part of American industrial activities.

Development of the Use of Consolidated Statements

United States

Consolidated statements emerged as an accounting by-product of the development and growth of the combination movement in the United States and were adopted later in Canada, Great Britain and other parts of the world.

The first consolidated balance sheet issued publicly in the United States was circulated by the United States Steel Corporation in 1902. As senior partner of Price Waterhouse & Co., (auditors of the United States Steel Corporation), Sir Arthur Lowes Dickinson, perhaps more than any other accountant of his time, was instrumental in initiating the movement which led to the general use of consolidated accounts by holding company groups in the United States. The practice, introduced in the Corporation's first annual report, and consistently followed in subsequent re-

ports, provided great stimulus to the initial stages of recognition of the value and use of consolidated statements.

Many of the techniques and theories developed in his early engagements with the United States Steel Corporation were later incorporated by Dickinson in this text "Accounting Practice and Procedure", published in 1914. The section dealing with the accounting for holding companies included many practices and principles which are today recognized as fundamental to the concept of consolidated statements.

An editorial in the *Journal of Accountancy*, July 1925, provides an interesting observation on the early recognition of the value and use of consolidated statements. "Some years ago it was frequently necessary for accountants to impress upon clients the value of a consolidation in financial statements in giving shareholders in holding companies a general view of the effective financial condition of the enterprises in which they were investors. The reform did not meet with immediate acceptance and in many cases it was a matter of some difficulty to carry conviction to the minds of clients. Later, however, such bodies as the New York Stock Exchange, the Federal Reserve Board, and the Ways and Means Committee of the House of Representatives became appreciative of the value of consolidated accounts and of the meagreness of the light afforded in many cases by purely holding company accounts, and the practice of consolidation extended rapidly so that today the standing of consolidated accounts in American finance is beyond question."

Maurice Moonitz has pointed out that "Aside from the holding company itself, probably the most important factor in shaping the uneven development of the popularity, the form, and the content of consolidated statements, has been the various Federal Revenue Acts. Although continuous, the intensity of accounting interest in the technical development of these statements seems to vary almost directly with the extent to which consolidated returns are acceptable for income tax purposes."

During the period from 1917 to 1939, the taxing authorities' attitude towards consolidated returns was somewhat changeable. From 1917 to 1921 consolidated returns were required of affiliated companies, but in 1921 this was put on an optional basis. In 1932 and 1933, companies exercising this privilege were required to pay a small additional tax. In 1934, the right to file consolidated returns was withdrawn, except for railroads. However, the 1939 Revenue Code reinstated this privilege for purposes of excess profits taxes. This was extended in 1942 to include income taxes and an additional 2% surtax was imposed on all companies exercising the privilege of filing consolidated returns. Since that date the tax regulations, in this respect, have remained substantially unchanged, except that the 1954 Revenue Code set the stock ownership affiliation test for filing consolidated returns at 80% rather than 95%.

Unlike the situation in Great Britain, consolidated statements in the United States have almost no legal status in the sense of being required by the corporation laws. Writers on this subject have pointed out that consolidated statements are almost wholly, though not entirely, out-

side the scope of complete legal recognition and that they are purely an accounting creation, in the preparation of which the principles of good accounting govern, more to the exclusion of legal principles than in the case of any other major accounting statement. However, by specific statutory enactment, consolidated statements have attained full legal status for specific purposes in some jurisdictions. In addition, the actions of certain governmental and non-governmental agencies have given partial or complete recognition to them. For example, the California State Corporation Law provides that the balance sheet of a holding company may be either its separate balance sheet or a consolidated balance sheet of the holding corporation and its subsidiary companies. However, if consolidated, the balance sheet must be accompanied by a separate balance sheet of the holding company.

In more recent years, the Securities and Exchange Commission and the various local Stock Exchanges have played an important role in the final stage of the general acceptance and use of consolidated statements as an effective medium of financial reporting. The New York Stock Exchange, for example, has made the following provision a part of its listing requirements: "The corporation will publish at least once a year . . . . a balance sheet as of the end of such fiscal year, and a surplus and income statement for such fiscal year of the corporation as a separate corporate entity and of each corporation in which it holds directly or indirectly a majority of the equity stock; or, in lieu thereof, eliminating all intercompany transactions, a consolidated balance sheet of the corporation and its subsidiaries . . . ., and a consolidated surplus statement and a consolidated income statement." The Securities and Exchange Commission was given, among other things, the right to require consolidated statements, where the Commission deemed it necessary or desirable. Today, this Commission generally requires that the registration reports and annual statements which are filed with it by holding companies be prepared on a consolidated basis taking into account all subsidiaries which by definition are deemed to be significant. In addition it has set out specific rules regulating the form in which the financial information is to be presented.

Supplementary statement No. 7, "Consolidated Financial Statements", released by the 1954 Committee on Accounting Concepts and Standards of the American Accounting Association, included the following observation: "During the past half century, consolidated statements have constituted an increasing proportion of the published financial reports of American corporations. Furthermore, the tendency to present consolidated statements alone, unaccompanied by the separate statements of constituent companies, has increased. These trends strongly imply that the consolidated statements are more useful than separate statements, and may now be primary rather than secondary or supplemental."

Great Britain

In England, the recognition of the value of consolidated statements was more gradual than in the United States. The first fully consolidated report was not published until 1934 (Dunlop Rubber Co. Ltd.), although partially consolidated statements had been released prior to that time.

One of the most outstanding contributions to the study and development of the use of consolidated statements was made by Sir Gilbert Garnsey, who was the first to express publicly in Great Britain the principles applicable to this type of accounts. In 1922, he made British accounting history by the publication of his paper on "Holding Companies and Their Published Accounts" in which he explained the need for documents such as consolidated accounts to supplement the separate accounts of the parent company. At that time, however, consolidated accounts did not have general acceptance in Great Britain and the idea was somewhat novel to the businessmen of that country. But with time, the methods advocated by Garnsey won recognition as representing best practices and have now been given statutory sanction in the Companies Act, 1948.

T. B. Robson has pointed out that there have been three important stages in the development and consolidated statements in Great Britain. The first of these was in 1939 when the Committee of the London Stock Exchange announced that, where permission was sought to deal in the shares of a holding company, a guarantee would be required that a consolidated balance sheet and profit and loss account would be circulated in the future to the shareholders. Unfortunately, since there were very few new issues of capital stock during World War II, this pronouncement did not have the immediate effects that it would have had under normal circumstances. But at any rate, the initiative had been taken.

This was followed in 1944 by a formal recommendation issued by the Council of the Institute of Chartered Accountants in England and Wales dealing with the disclosure of the financial position and results of subsidiaries in the accounts of holding companies. This recommendation pointed out that "Where a company holds a direct or indirect controlling interest in another company or companies (referred to in this memorandum as 'subsidiary undertakings'), a true appreciation of the financial position and the trend of results of the group as a whole can be made only if the accounts of the holding company, as a separate legal entity, take into account or are supplemented by information as to the financial position and results of the subsidiary undertakings." In commenting on this pronouncement, the leading article in *The Accountant*, February 12, 1944, stated "Like all its predecessors, the present recommendation is advisory only and does no more than support advice which may be given to directors when considering the exercise of their discretion in the matter of accounting publication. Within these limits, however, the lead now given is clear and uncompromising. The Council, in short, regards consolidation as a necessary concomitant to the published accounts of a holding company."

The final stage of development was precipitated in 1945 when the report of Mr. (later Lord) Justice Cohen's Committee on Company Law Amendment included recommendations that the publication of consolidated accounts or similar statements to supplement the accounts of the holding company should be made a statutory obligation. This led to the inclusion in the Companies Act, 1947 and in the consolidating Companies Act, 1948, which is still in force, of provisions requiring the submission of

group accounts. It should be noted that the term "group accounts" used in Great Britain "includes all forms, whether consolidated or otherwise, of accounting statements which show the position and earnings of the group from the standpoint of the shareholders in the holding company". (T. B. Robson, "Consolidated and Other Group Accounts", page 8). These accounts may take the form of one or several sets of consolidated statements or a set consisting of the financial statements of each company in the group.

The group accounts required by the Companies Act, 1948 are in addition to the holding company's own balance sheet and profit and loss account. However, the holding company need not publish its own profit and loss account if full disclosure is made of how much of the consolidated profit or loss for the year is dealt with in the accounts of the holding company. Although other forms are legally permissible, W. W. Bigg has pointed out that "In the large majority of cases the group accounts take the form of consolidated accounts, in which the whole group is regarded as one undertaking, and the whole of the assets and liabilities of all the companies in the group are incorporated in one balance sheet. Similarly, the income and expenditure of all companies are combined in one profit and loss account."

Canada

As in many other fields of accounting, the development of the use of consolidated statements in Canada has been influenced to a great extent by the progress made in the United States. The presentation of annual financial statements on a consolidated basis has become well established in Canada as one of the basic principles of effective financial reporting. In the 1949 survey of annual reports of Canadian companies, 53% of the companies holding control of the majority of the voting stock of other companies prepared their annual financial statements on the basis of consolidating all subsidiary companies. An additional 29% consolidated only some of the subsidiaries and the remaining 18% presented only the financial statements of the holding company itself. By 1954 these had increased to 62% consolidating all subsidiaries, 22% including only some subsidiaries in the consolidation and 16% not presenting consolidated statements.

Although consolidated returns were permitted for some time by the Canadian tax laws, this practice is no longer permitted.

The Companies Act, 1934 (Canada) and the 1952 revision thereof contain provisions respecting the presentation of the accounts of a holding company and information concerning its subsidiaries. Under these provisions, holding companies may present their annual financial statements on a consolidated basis. However, if this procedure is not adopted or if any one or more subsidiaries are excluded from the consolidation certain information concerning the treatment of profits or losses must be annexed to the financial statements.

The Committee on the Canadian Companies Act of the Canadian Institute of Chartered Accountants made specific recommendations as to the amendments of the provisions related to the contents and presentation of the financial statements of holding companies. The report of this committee released in

February 1953 included the explanation of the reasoning behind their suggestions in this respect: "The provisions respecting the presentation of the accounts of a holding company and information concerning its subsidiaries as presently set out in s. 114 of the Companies Act [s. 118 of the 1952 Revision] do not, in our opinion, assure adequate disclosure.

"Undoubtedly consolidation of the financial statements of all subsidiaries with those of the holding company will in the great majority of cases give the shareholders in the holding company the fairest picture of their investment, but this is not inevitably the case. It may not do so, for example, where the operations of a subsidiary company differ in nature from those of the other company or companies in the group, or where the control acquired by the holding company is through a majority ownership of equity stock subject to large issues of bonds, debentures or preferred shares, or where foreign exchange restrictions significantly affect the availability of the subsidiary's assets. We believe that in such cases as these the shareholders may receive a fairer picture of their investment in the holding company if the accounts are not consolidated.

"For the above reasons we do not think the Act should impose a mandatory requirement for the consolidation of the accounts of subsidiary companies with those of the holding company. At the same time, we feel that where the accounts of one or more subsidiaries are not consolidated, the shareholders of the holding company are entitled to know the directors' reasons for not consolidating them and also to receive adequate information concerning the financial position and operations of such subsidiary or subsidiaries."

Ontario, by reason of the Corporations Act, 1953, has established a precedent in corporation statutes which should be influential in promoting similar enactments. The provisions relating to holding companies are generally along the lines of the recommendations included in the report of the C.I.C.A. Committee. They impose specific obligations for disclosure of adequate information concerning the financial position and operations of subsidiaries not included in the financial statements of the holding company. In addition, there must be an explanation of why the assets and liabilities and income and expenses of such subsidiary or subsidiaries have not been included.

The various provincial Securities Commissions have adopted rules and regulations somewhat along the lines of those in force in the United States. The Ontario Securities Commission, for example, requires that the prospectuses filed with them relating to the issue of shares by a holding company must include financial statements prepared on a consolidated basis "unless the Commission otherwise directs".

(*This discussion will be followed by a consideration of the basic principles of consolidated statements and some of the problems they pose.*)

BY GEOFFREY H. WARD, C.A.

Practitioners Forum

Office Accommodation

Proper working accommodation is just as important in the office as in the factory. Here are some thoughts on the office accommodation and equipment required by public accountants. Some of this material has been taken from the column "Office and Staff Management" conducted by Max Block, C.P.A. and published in the *New York Certified Public Accountant,* March 1955.

Let us assume we are equipping the office of a newly established practitioner in a town of 15,000, or opening a new branch in a modest way. We contemplate having the following staff: one partner, three students, one typist, and perhaps one part-time helper during the peak season. Thus accommodation for six is required.

Location

Though ideal space may not be available, let us consider what would be best. The area or building should be appropriate for a professional office and one's neighbours should have a professional flavour. Space in a "good" office building, a suite of offices on the second floor above a bank, or accommodation next to a firm of lawyers would be acceptable. Both the latter situations have obvious advantages. Other considerations in choice of office would be condition of building, whether it was sound-proofed and air-conditioned, available parking area and general convenience of access for staff and clients.

Approximately 600 square feet will be required, *viz:*

For partner	100	to	150	sq. ft.
For stenographer	100	to	150	" "
For staff	300	to	400	" "
	500		700	

Additional space may also be desired for a separate waiting room for visitors. The long term benefits of being in the right location make it worthwhile moving to the best place when the opportunity comes.

Excellent lighting should be arranged for all rooms. Proper colouring of the wall paint is also important. The walls should be of a subdued shade that will disperse light effectively.

Three Areas

Three basic work areas are considered essential. The first is a private office for the partner so that he may confer with staff and clients without interruption. The second is a separate room for the secretary, so that she may work undisturbed by the audit staff and be able to deal with confidential matters, and so that the noise of the typewriter and the telephone will not disturb others. The third is a larger room for the audit staff and the temporary help. Now let us deal with each in turn.

Partner's office: The partner's office

will require a desk and a chair, some space on which working papers may be placed until they receive attention, a filing cabinet for confidential matters, a bookcase, telephone, two additional chairs for visitors, clock, fan, pictures on the walls, space for dictating machine and facilities for hanging up coats. The room might be soundproofed by carpeting and acoustic tile, and an air conditioning unit installed. These extras should increase the partner's efficiency and productivity as well as add to his comfort and prestige.

Secretary's office: The secretary's office will need a desk, typewriter and chair, storage space for stationery, telephone, "line-a-time", space for the dictating machine and for her hat and coat. It may be preferable to have the duplicating equipment and microfilming or photocopying machines in the same room as the typist. Also confidential files may be kept here rather than in the partner's office.

Staff office: The staff room will require four tables, filing cabinets for working papers, space for stationery and forms, telephone, wardrobe rack, notice board, mailbox, adding machine, calculating machine and bookcase. Preferably there should be a table for each staff member. While they will seldom all be in the office at once, this may happen. Having one's own table gives a staff a sense of belonging as well as a place to store work currently in progress. In the staff room tables are preferable to desks as desks tend to become storage vaults for files. The tables can be arranged in file form so as to discourage idle conversation. If each member of the staff does not have his own table, he should be allocated space in a filing cabinet where his messages and correspondence on audit work may be placed and where he may store books and papers being worked on. Some accountants prefer to have the tables and desks cleared each night.

Equipment

Now let us deal with items of special interest to accountants.

Adding machines: An electric machine would be the usual choice. An additional hand-operated machine may be needed for taking out on jobs. Alternatively, purchase of a printing calculator which combines an electric adding machine with a calculator is less costly than buying a calculator and adder separately.

Dictating machine: A dictating machine is fairly essential. While it would be used mainly by the partner, the audit senior might also employ it for drafting reports and letters.

Filing cabinets: The purchase of five drawer filing cabinets would seem to be more efficient in the long run since the reduction in floor space would provide a real saving in high rental areas. As the top drawer is rather high to reach, relatively inactive material can be filed there.

Providing fire-proof storage for working papers, clients' records and confidential matters requires serious consideration. If a fireproof vault is available in the building, the solution is easy. Otherwise fireproof filing cabinets could be used. However, they are expensive.

Forms: For keeping supplies of forms and stationery a special file can be built of plywood, with shelves about two inches apart. Each form then has its own shelf. A sheet of cardboard placed on top of each pile

protects it from dust. A special red sheet inserted near the bottom of each pile indicates when a new supply should be obtained. On the other hand, space in filing cabinets or cupboards may be used.

Storage facilities: Steel transfer filing cabinets, which are not expensive, could be used. Space outside the office could be rented at lower cost than office space.

Telephone: In order to permit undisturbed conversations, it is advisable to have three extensions, one in each room and perhaps two outside lines.

Typewriters: An electric machine is fairly essential for regular use. Another spare one, which need not be electric, is also essential for peak periods when a temporary typist is employed.

Miscellany: Staplers, three-hole punch and eyeletter for binding statements are needed. All desks should be provided with regular gadgets and conveniences such as waste baskets, ash trays, and supplies of pencils, clips and erasers.

Optional items: Extras are photocopy machine or microfilm unit, and the air-conditioner.

Sound-proofing, especially around the noisy equipment, is also desirable. The need for duplicating equipment will depend upon the number of statements for which more than 10 or 12 copies are required.

An Actual Case

So much for the theory of office accommodation. Now an actual case history has been told this department by A. F. MacLaren of Barrie, Ontario. Of particular interest is his firm's decision to buy its own building.

"In 1951, faced with the need of additional room, we decided to acquire a building. This building was built about 1875 as a stable, then made into a residence. Located a block from the banks and business section, around the corner from the legal offices and across from the post office, it is on the second main business street of the town.

"Complete renovations were required inside. (The building is approximately 18′ x 28′ and of brick construction.)

"The first floor was paneled and glass partitions and a sound-absorbing ceiling were erected. There are now two offices approximately 10′ x 10′ for the partners. The third office 10′ x 16′ is for typing, machine accounting, microfilming, storage of stationery and assembling the finished statements. It also serves as a waiting room when required.

"The second floor has four offices—7½′ x 7½′, 6′ x 7′, 10′ x 14′ and 10′ x 12′. One of these is rented by the district office of an accounting forms manufacturer. One is allotted to our bookkeeping department, the small room to the senior auditor and the remaining room for the rest of the staff.

"The basement contains a fireproof vault 7′ x 14′, an oil furnace and a washroom. From the basement it is possible to go directly into the garage.

"Our office equipment is as follows:

1. Large tables in place of desks.
2. Electric typewriter.
3. Non-electric typewriter (spare).
4. Dictaphone.
5. One hand-operated and two electric adding machines.
6. Calculator.
7. Electric accounting machine.

8. Microfilm unit.
9. One telephone line with four extensions (the tenant's phone may be answered by our secretary).

"In the smaller centres there is not the same degree of uniformity in rents, as there are no buildings constructed primarily for office use. Rents vary from $1.75 to $2.25 per foot.

"This building has given us

1. Work areas arranged to suit our own tastes and requirements.
2. Room to move about and a consequent easing of the tension during pressure periods.
3. Peace of mind and a feeling of permanence.
4. An operating cost for heat, light, taxes, insurance, repairs, janitor service (but no depreciation or mortgage interest) of approximately $1.00 per year per square foot of office space used.
5. An equity in a tangible asset protected against the process of continued inflation. Situated in an expanding area the property has appreciated in value much more than it has actually depreciated.

"While the building has never operated at a profit because of the heavy debt and depreciation charges, it is a very satisfying feeling to purchase a few bricks each month rather than put a few gold bricks into the landlord's pocket."

ACCOUNTING FOR FEES

Iowa Surveys Firm Practices

"Sixty-nine of Iowa's individual practitioners and accounting firms revealed their methods of operation recently in a survey conducted by the Iowa Society of CPAs.

"Some of the Iowa results:

1. Sixty-two of the 69 carry a work-in-process ledger or cost record of work done for clients. Of these, 24 post time and billing amount to clients; 23 post time only; 11 post at a standard hourly rate; three post salary only; and one posts hourly rates, direct expenses and billing.
2. Percentage of dollar billing averages: 77% on a per diem or hourly basis, and 23% on a flat-fee basis.
3. Forty of the 69 use a daily rate in billing.
4. Sixty-three bill clients at completion of the engagement.
5. The work week varies from a 40-hour week (used by 37 practitioners and firms) to a 60-hour week (used by one). During the busy season, 29 show more than 55 hours; 25 show 50-55 hours; eight show less than 50 hours per week.
6. Fifty-nine of those replying perform some bookkeeping services, obtaining nearly 15% of their gross fees from this work."

—*The Journal of Accountancy,* June 1954.

BY MELVILLE PIERCE, B.A., LL.B.

The Tax Review

Reserves for Returns

The Supreme Court of Canada has recently handed down a significant decision on the question of "reserves" which should be of considerable interest to the accounting profession. Readers may recall the disconcerting effect of the decision of the Exchequer Court in this case almost four years ago when Mr. Justice Cameron reversed the prior judgment of Mr. Monet in the Income Tax Appeal Board. Mr. Justice Cameron's judgment has now been reversed by the Supreme Court of Canada, four Judges to one, in *Sinnott News Co. v. MNR.* Inasmuch as this dispute was concerned with assessments for the 1945 and 1946 taxation years the statute involved was of course the Income War Tax Act, the relevant provisions of which have since been amended by the introduction in 1952 of new provisions on "Reserves". Accordingly the appraisal of the Supreme Court's decision in the light of the existing law requires careful analysis.

The appellant, Sinnott News Co. of Toronto, was a wholesale distributor of some 450 publications to about 2500 retailers throughout Ontario. It obtained the periodicals from various publishers on consignment for distribution to retailers and distributed them to its retailers thrice weekly on the understanding that any of them not sold by a retailer within specified time limits (varying with different publications) could be returned to appellant, and the amount charged therefor in the statement furnished at the time of delivery would be credited in full to the retailer. It will perhaps suffice to say without further elaboration of the facts that in all three tribunals before which this case was heard it was held that the transactions between the appellant and its retailers were not outright sales but rather deliveries "on sale or return", and therefore, under s. 19, rule 4 of the Ontario Sale of Goods Act, that the property in the periodicals did not pass to the retailers until they themselves sold the periodicals or the time fixed for returning unsold periodicals had expired.

Before 1945 appellant in its tax returns for each year had always included as accounts receivable the amounts due from retailers for all publications delivered to them during each year as above described notwithstanding that some of the periodicals would be returned in the subsequent fiscal year and the price charged therefor credited back to the retailers. In 1945, however, wartime paper controls were removed and the company's volume of sales increased substantially as did retailers' returns. Thus at appellant's 1945 year-end there were periodicals to the value of $65,000 outstanding in retailers' hands on a "sale or return" basis, and appellant's experience indicated that credit would have to be given to re-

tailers to the amount of $11,575 for publications returned in appellant's succeeding fiscal year. Appellant accordingly set up in its account for 1945 a "reserve for loss on returns" of $11,575. Then the fun began.

The Minister disallowed the deduction on the ground that it was a reserve the deduction of which is prohibited by s. 6(1)(d) of the Income War Tax Act. However, in the Income Tax Appeal Board Mr. Monet allowed the company's appeal on the ground that appellant made no profit on goods which it merely delivered but did not sell, and that until the periodicals in question were sold by the *retailers* there was no profit to appellant.

In the Exchequer Court, however, the Minister was successful. There Mr. Justice Cameron held that because (1) appellant failed to keep an inventory of periodicals delivered and (2) billed for periodicals immediately upon delivery, it must be found that the periodicals were sold either at the time of delivery or when payment was made for them, and that the full price of the periodicals sold must be included in computing appellant's income without the allowance of any "reserve" for expected returns.

On further appeal to the Supreme Court of Canada the Chief Justice of Canada agreed with Mr. Justice Cameron, but the other four members of the Court were of another opinion. Three of their Lordships (Locke, Cartwright and Fauteux JJ.) held that the transactions between appellant and its retailers were not outright sales but deliveries "on sale or return" whilst Kellock J. was of opinion that the transactions were outright sales. In the view of the majority the decisive circumstance was that appellant could not have succeeded in an action for the price of goods delivered to retailers before the latter had elected to exercise or reject their option to buy the periodicals delivered to them or return them within the time limited. In the view of Kellock J., on the other hand, the evidence (which it is not necessary to set out here) satisfied him that the appellant treated the deliveries as actual sales, and concluded that they must be held to have that effect in law. Oddly enough, in spite of this difference between the four above members of the Court upon the nature of the transactions they were unanimous that the appeal of the company must be allowed.

The conclusion of the majority that appellant was entitled to succeed was the inevitable consequence of their view that the transactions between appellant and its retailers were not sales but merely deliveries. Appellant was not required, they held, to insert in its annual accounts any amount in respect of periodicals delivered to retailers but for which the latter were not liable to pay appellant at appellant's year-end. But in directing the deduction of the latter amount from appellant's total of sales for the year they also held that the purchase price of the above periodicals, *viz.*, the amount payable therefor by appellant to the publishers, must likewise be deducted. In effect, the majority holds, goods delivered but not sold in the course of trade are not to be taken into account for tax purposes in the year of delivery but only in the year of sale.

Mr. Justice Kellock arrived at the same result but by a different route. As mentioned above, in the opinion of that learned Judge the transac-

tions under review were actual sales, that is, there was a transfer of title as well as of possession at the time of delivery of the periodicals by appellant to its retailers. Nevertheless, Kellock J. held, this did not conclude the matter, for the sale was subject to a condition subsequent, namely, the retailers' right to return the periodicals to appellant, and, if they did so, the property in the returned periodicals automatically revested in appellant. It followed, held His Lordship, that while appellant was not entitled under the *Income War Tax Act* to set up a reserve for the profit element in the sale value of periodicals which it estimated would be returned to it during the first three months of the succeeding fiscal year, it was entitled in its income tax returns to deduct the estimated sales value of such periodicals subject, however, when the actual figure was ascertained at the end of the three months' period, to adjustment in the year in which such returns were made.

The difference between Mr. Justice Kellock and the majority Judges is upon the question whether or not the deliveries by appellant to its retailers were outright sales or not, the majority holding that they were sales subject to a condition subsequent for the revesting of the property in the vendor.

The question remains as to the effect upon this decision of recent changes in the Income Tax Act. The answer is that the decision is unaffected by the provisions of the Income Tax Act enacted in 1952 respecting special reserves. The 1952 amendments declare, *inter alia*, that cash received though not earned in a taxation year must be taken into account for tax purposes in the year of receipt, and that amounts receivable in respect of property sold or services rendered must be taken into account in the year the property is sold or the service rendered. In the case we are concerned with, the basis of the majority judgment is that the periodicals were not sold at the time of delivery, and accordingly the 1952 amendments do not require that the accounts receivable in respect of those periodicals be brought into income in the year of delivery. Mr. Justice Kellock, however, took the view that there was a sale at the time of delivery, which sale was, however, subject to a condition subsequent under which the property in the periodicals would automatically revest in the vendor. Applying the 1952 amendments to that view of the situation, the appellant could not succeed today in a similar appeal from an assessment for a taxation year affected by the 1952 amendments. Under the express language of the law (s. 85B(1)(b)), every amount receivable in respect of property sold shall be included in computing the income of the taxpayer for the year of sale. Mr. Justice Kellock's view did not, however, prevail on this question: on the view taken by the majority of the Supreme Court the 1952 amendments are without effect on their decision.

To accountants and businessmen this decision, satisfactory as its result undoubtedly is, must be somewhat baffling. From the business point of view the issue presented could not have been simpler. In 1945 the appellant furnished periodicals to its retailers for which payment was to be made in 1946. The full price payable for those periodicals was some $65,000, but it was a known fact that periodicals to the face amount of ap-

proximately $11,575 would be returned and only the remainder paid for. The accounting question: what amount should be taken into appellant's 1945 income in respect of those periodicals, having regard to all considerations, has a very ready answer: $65,000 less $11,575. Considerations of expense and practical convenience aside, an equally satisfactory answer might be that nothing should be taken into income until 1946 when the transaction was completed. But from a business point of view that is an impracticable solution, resting as it does upon the ascertainment of the right answer to a question of law to which five Judges of Canada's highest Court furnished three different answers.

THE ANTIQUITY OF AUDITING

Ancient Egypt, long before the advent of money, had devised means of preventing losses through peculation. When, for example, corn was delivered to the granaries of the Pharaohs, the sacks were filled under the eye of an overseer, who made a note on papyrus. A second official saw the sacks into the storehouse, and made his own record. The simple expedient was adopted of making one man check the work of another.

The Greeks, with their more highly-developed system of accounting, inaugurated the auditing of public accounts by skilled "checking clerks". Rome, even in the days of the Republic, kept a close watch on the accounts of officials whose duties included the handling of cash. Medieval Italy, which was to develop double-entry bookkeeping, was no less vigilant, and audits in England may be traced back to the twelfth century.

—From an article by R. Robert, A.C.I.S. in *The Accountant*, May 19, 1956.

BY PETER C. BRIANT, B.COM., C.A.

Assistant Professor, McGill University

Current Reading

MAGAZINE ARTICLES

ACCOUNTING

"PRICE LEVEL CHANGES AND FINANCIAL STATEMENTS," by Perry Mason, published by the American Accounting Association, 1956, pp. 28

This pamphlet is stated to be one of a series prepared in connection with a research project which has as its object the recasting of conventional accounting figures in terms of dollars of constant purchasing power.

Professor Mason's statement commences with a discussion of the general nature of price levels and of index numbers, and indicates the effect of inflation and deflation upon individuals and business enterprises. In the remainder of the report the technique of converting financial statements in terms of constant dollars is demonstrated.

It is recommended that anyone interested in the problem of accounting in an age of inflation, but unfamiliar with the nature of the problem or the methods of adjustment, should read Professor Mason's monograph before studying others in the series.

Copies may be obtained from the American Accounting Association.

AUDITING

"THE AUDIT OF A PUNCHED CARD ACCOUNTING INSTALLATION," by Ray L. Holland. *The Internal Auditor,* March 1956, pp. 20-25

The auditor does not need to know how punched card equipment works any more than he needs to know how an adding machine works, states Mr. Holland, an accounting practitioner. He does emphasize, however, that a basic understanding of the functions of the equipment used and careful planning in advance are essential, if the auditor is to take full advantage of the fact that mechanized procedures may facilitate audit work and increase its effectiveness.

The possible errors that can occur are listed: punched card equipment will act only on the basis of specific instructions; the machines can be manipulated; inaccuracies in output data can arise from mistakes in the basic source data, from incorrect coding, and from incorrect key punching. In the light of these weaknesses, the author recommends that the auditor should review carefully the controls maintained to acquaint himself with the points in the procedures where errors would most likely occur.

Mr. Holland raises many other points, all of great significance in these days when data-processing is being increasingly accomplished by machine.

BUSINESS

"THE ELECTION AND BUSINESS ACTIVITY" — Reported. *The Controller,* May 1956, pp. 228

An address by Dr. Marcus Nadler of New York University on the probable economic effects of the forth-

coming presidential election is reported.

In the short-run, Dr. Nadler foresees some temporary psychological effects on security markets and business activity. In the long-run, however, he does not think the economy will be unduly influenced by the outcome of the election, citing similarities in the economic philosophies of both parties and pointing to the strength of broad, underlying forces in the economy to support his contention.

EDUCATION

"SHOULD HOMEWORK COUNT IN DETERMINING GRADES?" by Frances Clark and Dennis Gordon. *Collegiate News and Views,* May 1956

It is hard to believe that accounting students anywhere should need to be provided with an incentive to do their homework, other than the satisfaction normally derived from a job well done. Yet Messrs. Clark and Gordon report that of 67 professors replying to a questionnaire on this subject, 19 placed themselves on record as being in favour of giving weight to home assignments in determining the final grade in accounting courses.

One man apparently believes that a failure to give credit for homework is unfair to the students and overlooks "the essential psychological incentive" of high pay for good performance. This is just the kind of juvenile pampering that will produce good mechanistic, well-drilled bookkeepers, but it should certainly play no part in the training of professional accountants. If the students are not sufficiently stimulated by their course material, then there is surely something wrong either with the course or with the students. In both cases, the trouble could be remedied expeditiously.

In these days, when professional accounting demands men liberally endowed with creative imagination and initiative, it is fortunate, to say the least, that some of the men surveyed point out that accounting problem assignments are comparable to reading a page of history or sociology. Nobody would consider awarding final grade marks merely for outside reading, and neither should one for accounting problems.

FINANCE

"EQUITY CAPITAL FOR SMALL BUSINESS CORPORATIONS," prepared by the Small Business Committee, Investment Bankers Ass[illegible]ation of America, August 1955, pp. [illegible], 25c

This little booklet is designed to show how the investment dealer may help the small business corporation seeking equity capital. There are six sections covering the following topics: definition of equity capital; advantages of using outside equity capital; disadvantages of using outside equity capital; sources of equity capital for the small business corporation; how the small business should approach the problem; and general recommendations.

Dealing as it does with fundamental financial principles, there is nothing in the material that should not already be thoroughly familiar territory to the accounting practitioner. But it should be a valuable addition to the student's library. It would also be useful for practitioners to give to those of their clients who fall within the small business category – sales of $1,000,000 or less.

Orders should be addressed to the

Investment Bankers Association of America, 425 13th St. N.W., Washington 4, D.C.

"THE STOCK MARKET IN PERSPECTIVE," by J. Fred Weston. *Harvard Business Review,* March-April 1956, pp. 71-80

Testifying before a U.S. Senate Committee in 1955, economist G. K. Galbraith asserted that stock prices were once again at levels which might result in declines of the magnitude of those that occurred from 1929-1932. The author of this article contends, on the other hand, that because present market prices are above 1929 levels there is no reason to believe that a decline must inevitably take place. A significant relationship is shown to exist between gross national product and the total value of stock prices. On this basis current stock prices do not appear to be excessively high in terms of long-run secular growth patterns.

A great deal of the apprehension over the stability of the market appears to Professor Weston to stem from a confusion of cyclical and secular movements in stock prices. Data projected for the next 20 years indicates, for instance, that temporary cyclical downturns in stock prices will be offset by a strong and continuous upwards secular trend.

This article is well documented and illustrated with tables and graphs, one of which does reveal clearly that the present level of stock prices is slightly above normal, having in fact reached the level that would have been expected by 1960. It is thus possible to conclude that investors in 1955 have discounted all the growth that is likely to take place until 1960. By 1965, Professor Weston predicts that corporate demand for outside equity capital will be almost four times the present annual rate. The outlook for the future may therefore be summed up as one of generally increasing stock market prices to a level of 490.5 by 1975, on the basis of Standard and Poor's Industrial Index.

PROFESSIONAL

"TOWARDS RAISING THE SIGHTS OF THE PROFESSION," by William L. Campfield. *The Illinois C.P.A.,* Spring 1956, pp. 3-10

Dr. Campfield is one of that growing body of accountants who, in the world's four corners, are constantly exhorting their fellow practitioners to keep pace with the accounting revolution that is operating concurrently with economic, industrial and managerial revolutions.

He praises the work of various groups in promulgating and refining standards, but regrets that most of these pronouncements relate to the certification of financial statements. Although willing to acknowledge the importance of this work, Dr. Campfield would like to see accounting practitioners devote more time to the refinement of auditing techniques concerned with the development of data for decision-making by management. Fruitful areas in which he sees the need for greater proficiency on the part of professional accountants are those of advising managements regarding flexible budgets, forecasting capital requirements, cost analysis and control, job evaluation and personnel relations surveys, and assistance in the development of pricing policies.

Only the future will justify or refute the author's conclusion, which follows:

> . . . . If the [professional] accountant is to fully assume professional stature and enlarge his service to managements, he must enlarge the horizons of his thinking. In addition to supplying managers with reliable and dependable financial data, he must also be prepared to assist managements in making the subjective judgments which they are required to make in passing from an objective consideration of historical facts to the forecasts in planning for the future of an enterprise.
>
> The age has arrived when the informed accountant should unfetter himself from the narrow professional confines imposed on him by some of his myopic peers, and avail himself properly of the better talents which he has acquired in his widespread study and examination of business operations . . .

BOOK REVIEW

Corporation Finance in Canada by C. A. Ashley and J. E. Smyth. The Macmillan Co. of Can. Ltd., Toronto, 1956, pp. 253, $3.95

Professors Ashley and Smyth have broken new ground in writing about corporation finance with specific application to the Canadian scene.

The formation of companies, the methods of raising the initial capital, and the rights of the various types of investors (bondholders, preferred shareholders and common shareholders) are described and related to Canadian legislation. Also explained is the operation of the stock market to provide a place for the exchange of capital.

The authors outline the problem facing company directors as to what they should do with the funds provided by earnings and reserves for depreciation. The traditional reasons for retaining earnings are given and answered. The Canadian trend seems to follow a practical course of paying a modest but steady dividend to the shareholders and using earnings retained in the business for capital expansion. In this connection, however, the authors feel that if the directors decide to undertake capital expansion they should appeal to the capital market rather than take the easier way of using retained earnings. It is pointed out that the application of funds provided by depreciation to capital expansion merely delays the time when new money must be brought in.

Monopolies and combinations receive sympathetic attention. The economic conditions which justify monopolies in Canada are set out and the need for adequate controls outlined. A critique of Canada's anticombine legislation is not attempted.

Current practices concerning bankruptcy and reorganizations are also described and related to the pertinent legislation.

This book provides a good simple introduction to the subject. References to actual cases are made but since the footnotes do not describe them fully they will be lost on a person not already familiar with the subject. The scope of the work is so large that it is impossible for the authors to deal adequately with the refinements of corporation finance, such as leverage, proper balance in financial structure, and the effect of taxation on financial policy of corporations. These problems are drawn to the attention of the reader, but not answered. The authors would do a good service by following "Corporation Finance in Canada" with a more advanced companion volume.

R. E. HERINGTON, C.A.

SELECTED READING

Accounting

"Preparing a Chart and Manual of Accounts" by M. J. Kean. *NACA Bulletin,* April 1956, pp. 1002-1009.

Auditing

"Auditing for Management: A Constructive Service Provided by the Internal Audit Department," by G. D. Bruce. *The Accountant,* April 14, 1956, pp. 394-396.

"Trends in New Zealand Auditing Practice," by C. H. Perkins. *The Accountants' Journal,* March 1, 1956, pp. 282-291.

"Managers' Responsibilities as to Auditing Procedures," by John M. Waterman. *The Arthur Young Journal,* April 1956, pp. 1-8.

"A Suggested Change in Examination Approach," by A. Carl Tietjen. *The Journal of Accountancy,* April 1956, pp. 47-49.

Cost Accounting

"Today's Costing Methods and Their Objectives," by Lambert H. Sprouck, *NYCPA,* May 1956, pp. 285-294.

"How We Evaluate Return from Research," by Nyland and Towle. *NACA Bulletin,* May 1956, pp. 1092-1099.

"Cost Control in the Rubber Industry," by Dan A. Hackney. *Cost and Management,* March 1956, pp. 86-98.

Equipment

"Deciding Upon an Electronic Data-Processing System," by W. S. Bagby. *The Controller,* May 1956, pp. 216-221.

"What Automation Means," by Frank G. Woolard. *The Accountant,* May 5, 1956, pp. 493-497.

Finance

"Dividend Policies and Common Stock Prices," by James E. Walter. *The Journal of Finance,* March 1956, pp. 29-41.

"Equity Financing for the Small Firm," by R. A. Weaver. *Harvard Business Review,* March-April 1956, pp. 91-102.

"The Theory and Practice of Investment," by J. A. R. Falconer. *The Accountants' Magazine,* April 1956, pp. 182-196.

Management

"Organization for Intra-Company Pricing," by F. L. Heuser. *NACA Bulletin,* May 1956, pp. 1100-1105.

"Installing a Profit-Sharing Plan in Your Company," by W. D. Welsford. *Cost and Management,* April 1956, pp. 151-157.

Professional

"Accountants' Charges," by Derek G. Lee. *The Accountant,* April 7, 1956, pp. 374-375.

"Challenges to the Accounting Profession," by John H. Zebley. *Accounting Review,* April 1956, pp. 173-181.

Addresses of Publishers

[The] *Accountant* (England), 4 Drapers' Gardens, Throgmorton Ave., London, E.C. 2, England.

Accounting Review, College of Commerce and Administration, Ohio State University, Columbus 10, O.

[The] *Accountants' Journal* (New Zealand), P.O. Box 5039, Wellington C, 1, N.Z.

[The] *Accountants' Magazine* (Scotland), 27 Queen St., Edinburgh 2, Scotland.

Arthur Young Journal, 165 Broadway, New York, N.Y.

Controller, 2 Park Ave., New York 16, N.Y.

Cost and Management, 66 King St. E., Hamilton, Ont.

Harvard Business Review, Gallatin House, Soldiers Field, Boston 63, Mass.

Illinois Certified Public Accountant, 208 S. LaSalle St., Chicago 4, Ill.

Internal Auditor, 120 Wall St., New York 5, N.Y.

Journal of Accountancy, 270 Madison Ave., New York 16, N.Y.

Journal of Finance, 5750 Ellis Ave., Chicago 37, Ill.

NACA Bulletin, 505 Park Ave., New York 22, N.Y.

New York Certified Public Accountant, 677 Fifth Ave., New York 22, N.Y.

BY J. E. SMYTH, F.C.A.

Associate Professor, Queen's University

Students Department

Examinations and Student Training

Are long examination questions a fair test of a candidate's knowledge? Should accounting examinations be a test of speed? Should a candidate be expected to know specialized topics not encountered within his own experience? Is the ratio of accounting theory to office experience in the student's training too low? These were some of the questions addressed to a Special Committee on Examination and Training of Apprentices of the Institute of Chartered Accountants of Scotland, and the committee's discussion of them in its recent report is, we think, a significant contribution to the problem of student training.

We believe that most students will agree with the committee's conclusions on the subject of examination questions: ". . . . It is evident that candidates may suffer from undue strain if the papers or the questions are unduly long . . . The committee feels that it should record its view that the Institute's examinations should not be allowed to become primarily a test of speed and that it hopes that the Examining Board, when setting future papers, will hold firmly to its present policy of allowing candidates ample time to do themselves justice . . . . While the committee has had to accept the conclusion that there must be some enlargement of the examination syllabus, it is felt that some relief can be given by the inclusion of alternative questions on specialized subjects in some of these papers."

By way of parenthesis, we should note that the committee has not recommended alternative questions for topics of a general nature, and, we think, with good reason. Not only do alternative questions add to the burden of those who set and mark the examinations (and this burden is no light one, and often a labour of love), but it is an open question whether alternative problems of a general nature are a help to the candidate. For one thing, it is difficult to design problems of equal difficulty, and there is no telling whether one candidate may not have done well simply because he happened to "land on" the right question, and another poorly because he made an unfortunate choice. Another important point is that some candidates waste a great deal of time trying to decide which question to attempt.

* * * *

Perhaps the most significant feature of the committee's report (certainly, if adopted, for future members of the Scottish Institute) is a somewhat revolutionary suggestion for the provision of additional theoretical training. The committee has recommended that the student-in-accounts be granted a nine months leave of absence from his firm to be spent in whole-time study at a university, the period counting, of course, as part of the term of years required as a prerequisite to a degree. The committee recognizes the financial problem which this suggestion poses for the student and for the practitioner but

there is evidence of much attention to the point of view of the student in its reasoning: "... As in every other profession there is a continual extension of the field of study, both by the addition of new subjects to the exam ination syllabus, and by a widening of the scope of subjects already in the syllabus. It was always true that in very few masters' offices could every apprentice gain experience of every aspect of the work of a practising public accountant, but with the widening of the scope of the examination syllabus, which over the past 25 years or so has been notable, it has become more than ever impracticable for the whole field of study to be covered by an apprentice's practical training and for success he undoubtedly needs much more "book learning" over and above his office experience than was formerly the case. The committee is convinced that practical training in the master's office is as vitally important today as ever it was, but it is also convinced that the time has come for making a new approach to the problem of the apprentice's theoretical study.

"With the passage of time and the expansion of the syllabus, a stage has been reached, in the committee's opinion, where the combined strain of office work and class study is excessive. The committee has reached the conclusion that means must be found of allowing apprentices facilities for theoretical study when their minds are fresh. This means that they must be allowed more time for study either piecemeal during office hours or by way of a period of absence for full-time study. Having considered these alternatives, the committee is satisfied that the second is much preferable. While the committee's conclusion has been reached after considering the special needs of the accountancy profession, it is perhaps not irrelevant to record that there is a marked tendency in other professions also for students to be given increased time to pursue the academic side of their studies during normal working hours for some period during their training."

* * * *

In Scotland the student-in-accounts must at present take a compulsory course of lectures at a university and if he is apprenticed to a firm in one of the larger centres he may also (and generally does) take special lecture courses offered by the Scottish Institute. In addition, he supplements his training by taking, and paying for privately, a correspondence course offered by a business college.

The report referred to above is of special interest to Canadian students-in-accounts because of a parallel between Scotland and Canada: in each country there are a relatively few large centres, with a consequent difficulty in arranging training for students in smaller centres by the lecture method. We understand that under the present arrangement in Scotland, the attraction of the larger centres, where the more complete instruction is available, makes it difficult for practising public accountants in the smaller centres to retain senior students-in-accounts.

PROBLEMS AND SOLUTIONS

Solutions presented in this section are prepared by qualified accountants and reflect the personal views and opinions of the various contributors. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM 1

Intermediate Examination, October 1955

Accounting I, Question 4 (10 marks)

List the factors that should be considered by the directors of a company before declaring dividends on common and preferred shares outstanding.

A SOLUTION

Factors to be considered by directors before declaring dividends on common and preferred shares

1. Is the dividend legal according to the Companies Act under which the company is incorporated and the by-laws of the company?
2. Is there sufficient cash and working capital available for the payment of the dividend?
3. Do the recorded earnings for the year and the accumulated earnings justify the proposed dividend?
4. Has the company endeavoured to maintain a stable dividend policy in the past?
5. Does the future program for expansion and plant renovation require the retention of earnings?
6. Is the preferred stock cumulative and if so are there preferred dividends in arrears which would prevent the payment of dividends on the common stock?
7. Are there any conditions attached to the preferred shares or any conditions in the trust deed underlying a bond issue which restrict the payment of dividends in certain circumstances?
8. What amount of dividends should be declared to take maximum advantage of the provision for tax-paid undistributed income?
9. Should the dividends be cash or stock dividends?

Examiner's Comments

The examiner reports that the candidates were well aware of the requirements of the question but many neglected to mention such considerations as the statutory provisions relating to dividends in the Companies Acts, and the effect upon dividends of terms of the preferred shares and trust deeds.

PROBLEM 2

Final Examination, October 1955

Accounting I, Question 3 (17 marks)

The shareholders of A Co. Ltd. and B Co. Ltd. have been approached by a syndicate with a proposal that a merger be effected and that a new company be formed under the name A B Co. Ltd.

The following are the condensed audited balance sheets of the two companies as at 31 Dec 1954:

ASSETS

	A Co. Ltd.	*B Co. Ltd.*
Cash	$ 25,000	$ 50,000
Accounts receivable	200,000	300,000
Inventories, at lower of cost or market	250,000	400,000
Land, at cost	50,000	45,000
Building, plant and equipment, at cost less depreciation	380,000	460,000
Goodwill		30,000
	$905,000	$1,285,000

LIABILITIES, CAPITAL STOCK AND SURPLUS

Accounts payable	$240,000	$ 190,000
Capital stock	400,000	600,000
Earned surplus	265,000	495,000
	$905,000	$1,285,000

The auditors of the two companies reported that the net profits have averaged, for the last five years, A Co. Ltd.–$66,120 and B Co. Ltd. $92,680 per annum, and that there has been no change in the capital stock accounts during that period.

The terms of the proposals are as follows:

(i) The A B Co. Ltd. is to have an authorized capital of:
  (1) 8,000 6% preferred shares of a par value of $100 each.
  (2) 60,000 common shares of no par value.

(ii) $700,000 5% bonds are to be issued secured by a first mortgage on the properties and plant of the A B Co. Ltd. An investment firm has agreed to underwrite this issue at 96.

(iii) The syndicate is to pay all expenses of the dissolution of the A Co. Ltd. and B Co. Ltd. and of the organization of the A B Co. Ltd. except for any discount on the bond issue. In consideration, the syndicate will have the right to purchase for cash 6,000 common shares at a price of $10 per share, together with a two-year option on 19,000 common shares at $20 per share.

(iv) The purchase price of each company is to be the total of:
  (1) Net tangible assets as at 31 Dec 1954, adjusted to take into consideration an appraisal of the fixed assets at that date.
  (2) Goodwill calculated on the basis that the portion of the average annual earnings for the past five years in excess of 7% of the price agreed upon for the total net tangible assets will be capitalized at 10%.

(v) The purchase price is to be settled by:
  (1) 2/3 of the cash received from the bond issue.
  (2) 8,000 6% preferred shares at par.
  (3) 35,000 common shares.

(vi) The payment of cash and the allocation of preferred shares to the A Co. Ltd. and to the B Co. Ltd. is to be pro rata to their net tangible assets after appraisal of fixed assets.

The shareholders of both companies agree to the proposal and the X Appraisal Co. has been hired by the syndicate to make an appraisal of the fixed assets of the companies. The appraisers report that as at 31 Dec 1954:

(i) Present value of land was: A Co Ltd.–$70,000 and B Co. Ltd.–$63,000.

(ii) Depreciated replacement value of buildings, plant and equipment was: A Co. Ltd.–$455,000 and B Co. Ltd.–$517,000.

Required:

(10 marks) (a) A schedule showing your calculation of the disposition of the purchase consideration (cash, preferred shares and common shares) to the A Co. Ltd. and to the B Co. Ltd.

(2 marks) (b) The number of common shares issued to each of the two companies.

(5 marks) (c) The opening balance sheet of the A B Co. Ltd. assuming there is to be no goodwill shown in the company's accounts and that the syndicate exercises its right to purchase the 6,000 common shares.

A SOLUTION

(a)

THE A B CO. LTD.

Disposition of Purchase Consideration to A Co. Ltd. and B Co. Ltd.

as at 31 Dec 1954

	A Co. Ltd.	B Co. Ltd.	Total
Net assets acquired			
Cash	$ 25,000	$ 50,000	$ 75,000
Accounts receivable	200,000	300,000	500,000
Inventories	250,000	400,000	650,000
Land (at appraised value)	70,000	63,000	133,000
Buildings, plant and equipment, at depreciated replacement value	455,000	517,000	972,000
Total tangible assets	1,000,000	1,330,000	2,330,000
Less accounts payable	240,000	190,000	430,000
Net tangible assets	760,000	1,140,000	1,900,000
Goodwill	129,200	128,800	258,000
Net assets acquired	$ 889,200	$1,268,800	$2,158,000
Disposition of purchase consideration			
Cash, in ratio 760,000: 1,140,000	$ 179,200	$ 268,800	$ 448,000
Preferred shares, in ratio 760,000: 1,140,000	320,000	480,000	800,000
Common shares, no par value, for balance	390,000	520,000	910,000
	$ 889,200	$1,268,800	$2,158,000

(b) Number of Common Shares Issued to A Co. Ltd. and B Co. Ltd.
as at 31 Dec 1954

To A Co. Ltd.	$\frac{390,000}{910,000} \times 35,000$	15,000 shares
To B Co. Ltd.	$\frac{520,000}{910,000} \times 35,000$	20,000
		35,000 shares

A B CO. LTD.
Balance Sheet as at 31 Dec 1954
ASSETS

Current assets		
Cash in bank	$ 359,000	
Accounts receivable	500,000	
Inventories, at lower of cost and market	650,000	
Total current assets		$1,509,000
Long term assets		
Land, at market value, as reported by X Appraisal Co., 31 Dec 1954	133,000	
Buildings, plant and equipment, at depreciated replacement value, as reported by X Appraisal Co., 31 Dec 1954	972,000	
Total fixed assets		1,105,000
Deferred charge		
Discount on bonds		28,000
		$2,642,000

LIABILITIES AND SHAREHOLDERS INTEREST

Current liabilities			
Accounts payable			$ 430,000
Long term liability			
First mortgage bonds, 5%, due			700,000
Total liabilities			1,130,000
Shareholders interest			
Share capital			
Authorized – 8,000 6% preferred shares of a par value of $100 each and 60,000 common shares of no par value.			
Issued and fully paid –			
Preferred: 8,000 shares		$ 800,000	
Common: 35,000 shares, for assets acquired from A Co. Ltd. and B Co. Ltd.	$652,000		
6,000 shares for cash	60,000		
		712,000	
Total shareholders interest			1,512,000
			$2,642,000

Note: The Syndicate holds a two year option expiring 31 Dec 1954 to purchase 19,000 common shares at $20 per share.

Examiner's Comments

The examiner reports that a great many students found this to be a relatively easy question. The most frequent errors were:

1. A failure to show a note on the balance sheet disclosing the option for the purchase of further shares by the syndicate.
2. A failure to show on the balance sheet the detail of the consideration for the issue of the common shares as between shares issued for assets acquired from the A Co. Ltd. and the B Co. Ltd., and shares issued for cash.
3. An inability to calculate the goodwill figure correctly.

The following treatments were regarded as acceptable alternatives:

1. Disclosure of the basis of valuation of long term assets as "cost" rather than appraisal since the amounts shown represent cost to the new company.
2. Description of the balance sheet as a pro forma balance sheet, setting forth the plan of reorganization.
3. Disclosure of bond discount as a deduction from the bond liability instead of as an asset.

PROBLEM 3

Final Examination, October 1955

Auditing I, Question 4 (15 marks)

As part of the analytical procedures carried out during the course of the audit of the X Co. Ltd., CA prepares the following statement of source and application of funds:

X CO. LTD.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
for the year ended 31st December 1954

Funds were derived from:			
Net profit for the year		$ 350,000	
Add: charges not requiring cash outlay			
Depreciation	$ 90,000		
Amortization of bond discount	7,000	97,000	$ 447,000
Sale of investments			202,000
Total funds derived			$ 649,000
Funds were applied to			
Building and equipment purchased		$ 702,000	
Preferred shares retired — 1,000 shares @ 105		105,000	
Bonds redeemed—3,500 @ 102		357,000	
Dividends paid, preferred and common		280,000	1,444,000
Net decrease in working capital			$ 795,000

The net decrease in working capital was made up as follows

	31st Dec. 1953	31st Dec. 1954	Working Capital Increased	Working Capital Decreased
Cash on hand and in bank	$ 126,000	$ 86,000		$ 40,000
Accounts receivable	650,000	690,000	$40,000	
Inventories	1,295,000	850,000		445,000
	$2,071,000	$1,626,000	$40,000	$485,000
Less:				
Bank loan (secured)		$ 100,000		100,000
Accounts payable	$ 900,000	1,150,000		250,000
	$ 900,000	$1,250,000		$350,000
	$1,171,000	$ 376,000	$40,000	835,000
				40,000
Net decrease in working capital				$795,000

Required:

The letter which CA would prepare to bring to management's attention any conclusions as to the company's financial policy which may be drawn from the above analysis.

A SOLUTION

Hamilton, Ontario,
October, 1955

Mr. . . . . .
General Manager,
The X Co. Ltd.,
Hamilton, Ont.

Dear Mr. . . . . .

As part of the analytical procedures carried out during the course of our recent audit we have prepared a statement of source and application of funds and related statement of changes in working capital for the year ended 31 Dec 1954, a copy of which we enclose. This analysis has brought out the following points relating to your company's financial policy which we believe to be worthy of consideration:

1. The serious depletion of working capital (which is now less than one-third of the amount at the previous year-end) is attributable to a number of factors:

(a) The payment of dividends equal to 80% of the profit for the year. Particularly in view of the other heavy cash outlays made by the company during the year, a much smaller cash dividend would have been justified. Alternatively, a stock dividend, instead of a cash dividend, might have been appropriate in these circumstances.

(b) The substantial expenditure for fixed assets. The use of other methods of financing fixed assets than the retention of earnings might have been preferable. Further expenditures of this nature should be carefully reviewed and possibly deferred until the working capital position improves.

(c) The redemption of bonds and preferred stock. While these redemptions reduce fixed charges against revenue and profits, respectively, they appear to have been made in this case at the expense of maintaining adequate funds in the business. We suggest, therefore, that future redemptions be deferred until adequate working capital has been built up.

2. The substantial decline in inventory amount from $1,295,000 as at 31 Dec 1953 to $850,000 as at 31 Dec 1954 may mean that the company is now under-stocked as a result of heavy expenditures on other things, and may be unable to render adequate service to customers. At the same time, the weak working capital position may render it difficult to acquire adequate inventories.

3. The investments sold were non-current assets and may have been desirable investments in other companies, the sale of which was dictated by an inadequate working capital position.

4. The substantial increase in accounts payable, from $900,000 at 31 Dec 1953 to $1,150,000 at 31 Dec 1954, combined with the substantial decline in inventories, indicates a weakness in meeting current obligations as they become due, at least to the extent that the accounts payable are for merchandise and not for fixed assets or dividends. A situation of this kind results in increased costs through an inability to take advantage of purchase discounts.

Since we believe the matters referred to above are of importance in determining the future financial policies of your company, we will be pleased to discuss them further with you if you wish.

Yours truly,
CA.

Examiner's Comments

The examiner reports that the candidates were generally aware of the nature of the problem but that some found it difficult to proceed because of a lack of imagination or, perhaps, because of lack of practical experience in this type of analysis. Another common weakness in the answers was a poor formulation of the letter.

Note to Students: *See page 92 for important announcement.*

NEWS OF OUR MEMBERS

Alberta

Frank L. Day, C.A. has been appointed secretary-treasurer of Inland Cement Co. Ltd., Edmonton.

British Columbia

Laurence M. Kershaw, C.A. announces the removal of his offices to Ste. 301, 709 W. Georgia St., Vancouver.

A. Phillips Downs, C.A. announces the removal of his offices to 2295 W. Broadway, Vancouver.

F. H. Harwood, C.A. announces the admission to partnership of W. H. Grayson, B.Com., C.A. Henceforth the practice of the profession will be conducted under the firm name of Harwood & Grayson, Chartered Accountants, with offices at 407 Metropolitan Bldg., 837 W. Hastings St., Vancouver.

G. Fitzpatrick Dunn, C.A. has been appointed a member of the Victoria Advisory Board of the National Trust Co.

Clarkson, Gordon & Co. Chartered Accountants, 510 W. Hastings St., Vancouver announce the admission to partnership of Donald B. Fields, C.A.

Newfoundland

A. C. Lloyd Hudson, C.A. announces the removal of his offices to the Parland Bldg., 237 Duckworth St., St. John's.

Ontario

Gunn, Roberts & Co., Chartered Accountants, and Dick, Bond, Hetherington & O'Loane, Chartered Accountants, announce that since June 1 their practices have been combined and carried on at 7 Queen St. E., Toronto, and at 45-6th St., Chatham.

Louis I. Powell, C.A. announces the admission to partnership of Abe Colman, C.A. Henceforth the practice of the profession will be carried on under the firm name of Powell and Colman, Chartered Accountants, with offices at 226 Queen St. W., Toronto.

Matthews Bros., Partridge & Co. Chartered Accountants, Kingston and Toronto, announce the removal of their offices to The Seaway Bldg., 304 Bagot St., Kingston.

S. Russell Reid, C.A. and A. Wallace Smith, C.A. announce the formation of a partnership under the name of Reid & Smith with offices at 1414 Pigott Bldg., Hamilton.

Quebec

W. Gordon Black, C.A. has been appointed treasurer of Kingsway Transports Ltd., Montreal.

James D. Fleming, C.A. has been appointed chief accountant of Kingsway Transports Ltd., Montreal.

J. David Weinstein & Co., Chartered Accountants, announce the removal of their offices to Ste. 104, The Mora Bldg., 5803 Cote des Neiges Rd., Montreal.

Ste-Marie & Masson, comptables agréés, annoncent que leurs bureaux seront situés dans ste. 328, l'édifice Lafleur, 3600, rue Barclay, Montréal.

M. Paul-Emile Noel, c.a., désire annoncer que son bureau est maintenant situé à ste. 6732, rue St-Hubert, Montréal.

N. R. Brining, C.A. has been appointed chief accountant of Gatineau Power Co., Hull.

Clarkson, Gordon & Co., Chartered Accountants, 507 Place d'Armes, Montreal, announce the admission to partnership of Raymond R. Jackson, C.A.

P. S. Wise, C.A. has been elected president of the B'nai B'rith Co-ordinating Committee of Montreal.

Jean-Paul Lamy, c.a. annonce l'ouverture de son bureau en vue de la pratique de sa profession au 1293, rue Hart, Trois Rivières.

INSTITUTE NOTES

MARITIME SEMINAR

Since its 1955 pre-examination seminar proved so popular, the Nova Scotia Institute in conjunction with Dalhousie University has arranged for a similar seminar prior to the 1956 uniform examinations. It will be held during the week beginning August 27 and will be led by Prof. Wilfred Berman of Dalhousie University, assisted by D. F. C. Burton, R. H. Busche, O. P. Cormier, C. W. Gurnham and B. S. Creighton, all members of the Institute. Registration fee is $15.

ONTARIO INSTITUTE

Associate Registrar — The president has announced the promotion of Mr. T. Merrilees, B.Com., to the position of associate registrar of the Institute.

Affiliation — The following have been admitted to membership by affiliation: A. D. Savage (Scot '31), B. J. Hayeems (Eng & Wales '50), H. L. Armstrong (Man '40), S. A. J. Fraser (Scot '53), A. F. Bailey (Eng & Wales '33), G. Portugais (Que '52), B. Lonsdale (Inc Accts '55), A. T. Holland (Que '50), L. R. Rosenberg (Que '55).

Reception for Fellows — The 46 Fellows elected in April received their fellowship certificates from the president, Mr. W. M. Brace, at a ceremony in the Lecture Hall of the Chartered Accountants Building on May 24, 1956. Mr. Gerald E. Martin, president of the Canadian Institute, was present for the occasion and added his words of welcome and congratulations to the new Fellows. Following the presentation there was a reception in the library to which all Fellows of the Institute were invited.

HAMILTON AND DISTRICT C.A. ASSOCIATION

Gordon H. Smith was elected chairman of the Hamilton and District Chartered Accountants' Association for the year 1956-57 at the annual meeting held June 12 at the Brantford Golf and Country Club. Elected to the executive committee for the year 1956-57 were: W. C. Chick, S. G. Jackson, L. H. Johnston, C. G. Robinson, W. G. Thompson of Hamilton; L. H. Digby of Brantford; W. W. Pollock of St. Catharines; and M. P. Greenhill of Galt.

The annual meeting was preceded by the annual golf tournament and golf prizes were presented by G. E. F. Smith, F.C.A. of Hamilton.

ONTARIO STUDENTS NOTES

Golf Tournament — The annual golf day of the Toronto members of the Association was held on Thursday, June 7, at the Rouge Hills Golf Club just east of Toronto. Again this year the event was blessed with outstanding weather which helped to boost the numbers taking part to almost 200. Doug French of Price, Waterhouse & Co. won the prize for low gross with an 81, beating last year's champion, Ted Forster, who went the rounds in 84 and secured the second prize. The low net was won by K. Dalglish. This year's tournament featured a competition for a new prize known as "The Secretary's Cup" (a surprise package). This is the booby prize to end all booby prizes, going to the firm whose players turn in the highest average score. The first winners of the prize are W. E. Johnson & Co. whose five players, all honest golfers, averaged 182. All the prizes will be given out at the annual fall dance in early December.

Students' Association Executive — The newly elected students' council met recently and

from its number elected the 1956-57 executive. Paul Higgins is the new president; David McPherson, vice-president; Al Dancy, secretary and Al Woods, treasurer. This executive and the committees appointed to handle various functions have already started work on the fall and winter program, resolved to make this year as great a success as 1955-56.

QUEBEC INSTITUTE ANNUAL MEETING

The possibility of an ever-widening role for chartered accountants in the field of management counselling was predicted by W. S. Munro, retiring president of the Institute of Chartered Accountants of Quebec, at that body's 76th annual meeting. A special committee under the chairmanship of J. C. Thompson, past president, will continue its studies of these matters during the coming year.

The meeting was of special interest to Quebec C.A.'s because it was the first held in the new Institute headquarters building at 630 Lagauchetiere Street West.

Mr. Munro said the professional accountant had long since passed the point where he could afford to be merely a fact-finder. His most useful area of service today begins where the audit report ends. "Perhaps one of the most significant characteristics of our profession today is the increasing desire to help people — to share their worries and to aid in their decisions".

Mr. Munro also urged the incoming Institute Council to give full support to the Canadian Institute in its campaign for pension tax relief for non-corporate taxpayers.

Growth in membership of the Quebec Institute during the past year continued to follow the "phenomenal pattern" set during the past five years, Mr. Munro observed. All told 197 new members were admitted — an all time high — bringing the total at present to 2,261 members as well as 1,019 registered students.

"The large bank of students would appear to indicate a healthy condition," he said, "but the industrial expansion in our country still leaves us with a dearth of both students and qualified accountants — a serious situation which poses the problem of providing sufficient talent to service our expanding economy.

"We are doing our utmost to meet this challenge, and I cannot stress too strongly the importance of our members interesting themselves to the greatest extent possible in this phase of our Institute's activities".

Lucien D. Viau succeeded William S. Munro as Quebec president. Other new officers are: first vice president, George P. Keeping; second vice president, Howard I. Ross; secretary, J. Emile Maheu; treasurer, William V. Victor. Elected to the Institute Council for a term of two years are: René Gagnon, John P. Kinghorn, J. S. McKeown, Donald F. Rennie and R. G. Scroggie. Six other members of the Council, W. J. T. Adamson, Roméo Bertrand, Raymond Fortier, Eric L. Hamilton, Robert N. A. Kidd and Roland R. Pouliot, have still a year of their two-year term to serve. C. Douglas Mellor is executive secretary.

QUEBEC CITY COMMITTEE

The annual meeting of the Quebec City Committee of the Institute of Chartered Accountants was held on May 22, at the Chateau Frontenac. Officers elected for the term of office 1956-57 were: president, Paul R. Thivierge; vice-president, Albert Garneau; secretary-treasurer, Roger-H. Stanton; directors, Michel Motard, Jacques Fortier, Paul-H. Paré and Roland Bédard, outgoing president.

The meeting was followed by cocktails and dinner for the members and their wives.

Guests of honor included Mr. Gerald Martin, president of the Canadian Institute of Chartered Accountants, and Mr. Michael Howarth, secretary, Mr. A. Emile Beauvais, past president of the C.I.C.A.; Mr. Lucien Viau, vice-president of the Quebec Institute; and Mr. Paul Bruneau, representing the faculty of Commerce of Laval University.

QUEBEC STUDENTS SOCIETY

The Chartered Accountants Students' Society of the Quebec Institute has arranged with McGill University to sponsor a tutorial course in accounting for those students writ-

ing the 1956 intermediate or final examinations. It will be held on successive Monday and Wesdnesday evenings from July 9 to August 29.

This course will be similar to the one held in 1955. It will cover all or part of the material for which intermediate and final students are responsible. Those taking part will answer questions under examination conditions and then join in a group discussion of the solutions and related material. Attendance will not be compulsory and students will not be required to turn in assignments or write examinations at the completion of the course.

MANITOBA STUDENTS SOCIETY

Students' Council, 1956-57 — The following executive was elected for the 1956-57 term: president, Don Rice; vice-president, Bill Campbell; secretary-treasurer, Stan Wylynko; John Ducharme, Ron Hanson, Jim Hastie, Bill Humphreys, Bob Kruger, Joe Mazur, Keith Muirhead, Dick Sachse and Gary Steiman.

Class Presidents — A new idea introduced during the previous season was the election of class presidents who would act as a liaison with students in their classes. For the 1955-56 term these were Dave Holman (5th year), Barry Iliffe (4th), Mack Nichol (3rd), Bob Kruger (2nd), Bob Jackson and Elwood Radcliffe (1st).

Annual Athletic Banquet — This was held on May 15 in the Albany Room of the Assiniboine Hotel. Dr. H. H. Saunderson, president of the University of Manitoba, was the guest speaker. The Peat Marwick Mitchell & Co. Trophy for annual baseball competition was presented to the society by Mr. Wm. Rutledge.

Baseball — The season started on June 7 with eight teams in the league. It is expected that competition for the new trophy will be very keen.

Annual Golf Tournament — The golf tournament took place at the Pine Ridge Golf Club on June 13 and was followed by a *filet mignon* dinner.

CLASSIFIED ADVERTISEMENTS

Rates: *Positions wanted, $7.00 per column inch; Positions offered, $10.00 per column inch; Open rate, $17.00 per column inch.*

All replies to box numbers should be sent to The Canadian Chartered Accountant, 69 Bloor Street East, Toronto 5, Ontario.

Closing date is 14th of preceding month

AUDITORS FOR MONTREAL: Salaries $3300 to $4600 per annum according to qualifications and experience.
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STUDENTS WANTED: Second, third or fourth year students required by medium-sized but well established and progressive Toronto firm of chartered accountants. Excellent working conditions and experience for students who can accept responsibility. Holidays can be arranged. Box 575.

BOARD OF EDUCATION FOR THE CITY OF TORONTO: Position available for a young, qualified accountant, to assist in preparation and anlysis of statistical reports, financial statements, etc. Initial salary, $5,000 - $6,000, according to qualifications and experience. Position affords excellent promotional opportunities. Telephone EM. 8-7661, Local 200, for appointment, or address applications, giving comlete details of education and experience to C. H. R. Fuller, Business Administrator and Secretary-Treasurer, Board of Education, 155 College St., Toronto, Ont.

CHARTERED ACCOUNTANT: Wishes to extend his practice in and around Edmonton, Alberta, by purchase or succession agreement. Write giving full particulars to Box 567.

CORRESPONDENCE is invited from persons holding a university degree and a C.A. degree for a position on the faculty of the School of Commerce, University of British Columbia. Salary and status will depend on previous experience. Address all correspondence to the Director of the School of Commerce.

CHARTERED ACCOUNTANT WANTED: An expanding firm of chartered accountants located in Toronto requires a young qualified man to assume supervisory responsibilities. This position offers unusual opportunities for experience and advancement. Salary commensurate with ability and experience. Box 576.

CHARTERED ACCOUNTANT: Recently qualified chartered accountant required by well-established firm of auditors in practice in Montreal for senior audit, tax and investigation work. Good opportunity for advancement with prospects for eventual admission into partnership. Our senior staff is aware of this advertisement. Box 574.

STUDENTS: Recent graduate of Bachelor of Commerce or Bachelor of Arts or intermediate or senior student required by a progressive firm of chartered accountants in Northern Ontario. Excellent opportunity for the proper applicant. Salary according to experience and ability. Box 573.

CANADIAN CHARTERED ACCOUNTANTS practising in Bermuda offer excellent opportunity to fourth or fifth year student. Present staff twenty-five. Expanding rapidly. Studies can be continued without interruption. Interviews can be arranged. Box 572.

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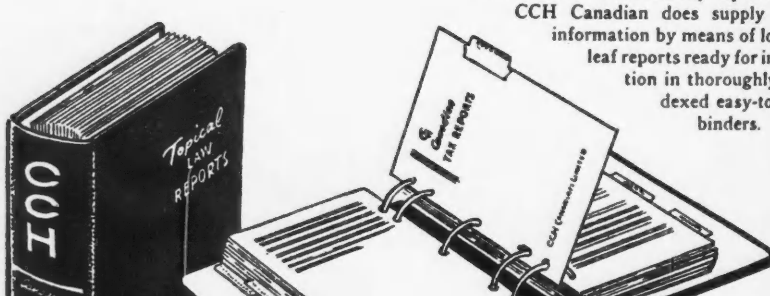
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